THE FREEMAN

IDEAS ON LIBERTY

The Charade of Participatory Democracy

Resurfacing the Road to Serfdom

The 1946 Voter Revolt

FEBRUARY 1991

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IDEAS ON LIBERTY

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Published by
The Foundation for Economic Education
Irvington-on-Hudson, NY 10533

President of The Board: Bruce M. Evans
Vice-President: Robert G. Anderson
Senior Editors: Beth A. Hoffman, Brian Summers
Contributing Editors: Bettina Bien Greaves, Edmund A. Opitz, Paul L. Poirot
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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a nonpolitical educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501 (c) (3) tax-exempt organization. Other officers of FEE's Board of Trustees are: Thomas C. Stevens, chairman; Philip M. Spicer, vice-chairman; Paul L. Poirot, secretary; Don L. Foote, treasurer.

The costs of Foundation projects and services are met through donations. Donations are invited in any amount. Subscriptions to *The Freeman* are available to any interested person in the United States for the asking. Additional single copies $1.00; 10 or more, 50 cents each. For foreign delivery, a donation of $15.00 a year is required to cover direct mailing costs.

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Bound volumes of *The Freeman* are available from The Foundation for calendar years 1971 to date. Earlier volumes as well as current issues are available on microfilm from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106.

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PERSPECTIVE

Valuing the Future

If private property rights are well defined and respected, then the owner of a resource has confidence that he or she will, by maintaining ownership, benefit from any increase in the future value of the resource. As evidenced by the fact that graffiti is ubiquitous on the walls of public rest rooms but seldom seen on the walls of rest rooms in private homes, people are more concerned with the future value of property they own than of property they do not own.

But genuinely farsighted behavior often requires that individuals consider consequences of their decisions that will not be realized until after they are gone. The private ownership of property by itself will not provide the necessary incentive for people to concern themselves with outcomes which extend beyond their own existence. Yet we observe property owners sacrificing current consumption in order to make investments that will not pay off for several generations. Many research and development projects will not, at best, pay off for decades. Owners of forest land replant white oak and Douglas fir trees that will not be harvested for 60 or more years. Some people invest in the production of wines and spirits that will be aged a century or more before they are sold and consumed. This behavior occurs because private ownership rights are generally transferable, and because future values are reflected in current prices.

—Dwight R. Lee and Robert L. Sexton, writing in the April 9, 1989, *Orange County Register*

Antitrust and Monopoly

Government, and not the market, is the source of monopoly power. Government licensing, certificates of public convenience, franchises, patents, tariffs, and other legally restrictive devices can and do create monopoly, and monopoly power, for specific business organizations protected from open competition. Abusive monopoly is always to be associated with governmental interference of production or exchange, and such situations do injure consumers, exclude sellers, and result in an ineffi-

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cient misallocation of resources. But importantly, for this discussion, such monopoly situations are legal, created and sanctioned by the political authority for its own purposes. Thus, ironically or intentionally, the bulk of the abusive monopoly in the business system has always been beyond the scope of antitrust law and antitrust policy. Antitrust . . . is both a myth and a hoax.

—Dominick T. Armentano, *Antitrust and Monopoly: Anatomy of a Policy Failure*

The Market for Corporate Control

The (relatively) free market economy of the United States has found a way to pierce the protective veil that insulates unresponsive management from the wrath of small shareholders—the takeover. The corporate takeover is practically the only way that entrenched management can be shaken up and either forced to be responsive to shareholder interests or fired. This market for corporate control does not exist to any great extent in any country except the United States, which provides a competitive advantage over other countries because the threat of takeover provides corporate management an extra incentive to work for shareholder interests rather than its own. Thus, shareholders of United States companies receive a higher return on investment than can investors in companies that are not subject to a takeover threat, all other things being equal. The attack on Drexel Burnham, and the threat of an attack on anyone else who tries to facilitate the market for corporate control with junk bonds, is bound to harm the market for corporate control and thus decrease the already weak voice that shareholders have. Management of companies that do not have to fear a takeover will have less incentive to be efficient, which also hurts employees and consumers.

—Robert W. McGee and Walter E. Block, writing in the *Northern Illinois University Law Review*

On the Skids

I wonder if one could not draw a parallel between a drunk on the skids and the American people with their addiction to more government. Or maybe compare our social welfare system with a mountain system of high peaks and bottomless ravines.

Behind us are the mountaintops of capitalism; below us is the chaos of socialism; we are perched on the slippery slopes which lead only downward.

Recently we witnessed several drunks in Eastern Europe, who after 40 years of socialism finally hit the bottom and only then were able to pick themselves up to vow never again to partake of what had nearly killed them. Need we follow them clear to the pits before we realize the terrible damage we do to ourselves when we tinker with the marketplace?

—Douglas N. Merritt, writing in the July 10, 1990, *Atchison Daily Globe*, Atchison, Kansas

The Caretaker State

The modern state taxes people in the name and façade of compassion in order to accomplish its salvation of all men by legislation, controls, and science. People have long believed in statist salvation, and they have looked to the state to solve problems, moral problems, they themselves refuse to acknowledge as their responsibility. One of my more vivid memories of this came with the 1971 earthquake in California's San Fernando Valley in Los Angeles. I heard someone in a check-out line of a supermarket complain about the earthquake, and earthquakes in general, and ask, "Why doesn't the government do something about it?"

Impossible tasks have been asked of the state, and the state has failed again and again. As a false savior, it is increasingly the target of the people's bitterness. The crisis will only worsen, and the evils experienced by peoples and states will intensify, until they recognize that the state is not god, nor is its power to do good equal to what man can do under God.

—Rousas John Rushdoony, writing in the June 1990 issue of *Chalcedon Report*

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Freedom of the (Printing) Press

by Michael L. Coulter

Freedom of the press is coming under a new attack in the United States. The threat is of an economic nature, and is rooted in sincere, seemingly harmless, environmental concerns. But if present trends continue, the results could have a devastating effect on press freedom.

Several states recently enacted laws requiring newspapers to use varying amounts of recycled paper. Other states are considering similar measures. The California law, passed in 1989, mandates that, beginning in 1991, 25 percent of newsprint purchased by publishers contain at least 40 percent of old newspaper print (ONP). This rate increases incrementally until the turn of the century when 50 percent of purchases must contain 40 percent of ONP.[1] The Connecticut law, passed in 1990, is even tougher. It mandates that by 1993, 20 percent of newspaper that is consumed will have to be recycled. This rate will reach 90 percent by 1998.[2] Several bills have been introduced in Congress that would require newspaper publishers to use certain percentages of recycled newsprint, while other bills would amend the tax code so that publishers who don't use recycled newsprint are penalized.

To avoid mandatory recycling, some newspapers have "volunteered" to purchase certain amounts of newsprint containing ONP. Agreements have been reached in Wisconsin and New York, stating that publishers will buy recycled newsprint if it is of a certain quality and price. This shifts the burden to the newsprint producers and says, in effect, that the newspaper industry can work toward recycling without government requirements.

The economics of newsprint recycling are formidable. There are 62 newsprint plants in North America (21 in the United States and 41 in Canada), but only nine are equipped for using old newspaper print.[3] These nine plants can produce only 13 percent of industry capacity.[4] Moreover, it costs approximately $100 million to retool a plant so it can make quality newsprint containing a high percentage of recycled fibers, or up to $500 million to build a new plant.[5] Most of these plants are located near logging operations, while most ONP is available near highly populated urban centers.

Without legislative inducements, approximately 1/3 of newsprint is recycled.[6] Old newspaper print is used for tissue, cereal boxes, construction paper, construction board, and cellulose insulation.[7] Entrepreneurs have made use of the plethora of old newspaper and converted it into useful and profitable products, without government coercion. Legislative efforts may disrupt these established markets for ONP.

Therefore, measures requiring newspaper publishers to use a particular type of newsprint yield small environmental gains at very high costs. Landfills will fill up slightly more slowly, and fewer trees will be cut for newsprint, but the costs are much greater. Newsprint producers would have to

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SOWERS PRINTING COMPANY

make large capital investments to gain the capability to recycle. In addition to capital investment, ONP must be purchased and transported to the plants. Also, existing markets for ONP could be unsettled. The additional costs will be passed on to newspaper publishers, which could further hurt the troubled newspaper market.

Even if we disregard the economic costs involved with the mandated use of recycled newsprint, we should oppose such initiatives because they are an illegitimate intrusion into the activities of the press. Thomas Jefferson asserted, "Our liberty depends on freedom of the press, and that cannot be limited without being lost." This statement still rings true. □

1. "Waste Disposal Crisis Fuels Surge of Interest in Recycling," *Pulp and Paper Journal*, January 1990, p. 46.
2. "State, Federal Governments Focus on Recycling," *Presstime*, March 1990, p. 60.
3. R. Dellinger, V. Horton, and D. Snow, "Waiting for the ONP Market to Improve," *Waste Age*, June 1990, p. 105.
4. G. Pierre Goad, "Recycling Siren Lures Newsprint Makers," *The Wall Street Journal*, November 10, 1989.
5. Alex S. Jones, "Newsprint Gamble Proving Costly," *The New York Times*, April 21, 1990.
6. Pat Guy, "Publishers Push Papers to Recycle," *USA Today*, October 6, 1989.
7. "Waiting . . . ," p. 106.

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Resurfacing the Road to Serfdom

by Susan Marie Szasz

The tearing down of the Berlin Wall, the overthrow of the Ceausescu dynasty in Rumania, the opening of McDonald's in Moscow all make for good front-page newspaper stories and dramatic television footage. But what does it all mean? Snapshots and sound-bites of "freedom" are a far cry from what the architects of Western freedom—Locke, Montesquieu, Adam Smith, Jefferson—had in mind. The history of the world since the 17th century has done nothing but confirm and reconfirm the indivisibility of the right to liberty and the right to property. But where is the right to property in the imagery, the language, or the hopes of the people of Eastern Europe and the Soviet Union?

To be sure, the people under Communist rule are fed up with their lives of economic deprivation and are demonstrating for "reform." They have traveled the "road to serfdom" and now, having arrived at its destination, realize they are not where they want to be. But where do they want to be? What sort of political-economic system do the people of Eastern Europe and the Soviet Union want? Do they want to risk journeying the "road to freedom," or are they more interested in repaving the old road with a smoother surface— one that they hope will lead them to the abundance of consumer goods available to their ideological opponents?

In addition, are the people of Eastern Europe and the Soviet Union willing to accept that capitalism can be as corrupt as socialism? Do they want the freedom of opportunity, whereby some succeed and some fail—or do they just want a better life, guaranteed by a more benevolent government? Are they willing to accept the inevitable inequality which results from liberty, as defined by the absence of an equalizing government, or do they still prefer to perfect social equality, only at a higher level of creature comforts? Are they, in return for true freedom, prepared to give up bread lines for unemployment lines?

We ought then to be careful lest we lend more significance to recent events in the Soviet bloc than they deserve. While it may be difficult—even churlish—to display pessimism in the face of joyful events, it might be well for us to step back from the excitement and try, as coolly as possible, to assess the changes that have occurred so far and project those likely to follow.

As in all discussions of human affairs, we must begin by clearly and carefully defining the terms we too easily take for granted. What do we mean by terms such as "liberty," "property," and "socialist"? Also, lest we mistakenly assume that others view these ideas as we do, what do these words and ideas mean to the peoples of Eastern Europe and the Soviet Union?

For us, the core meaning of liberty is clearly articulated in the immortal works of the great intellectual founders of Western liberty and the institutions their ideas inspired. "Though the Earth, and all inferior Creatures be common to all men," wrote John Locke in 1690, "yet every man has a *Property* in his own *Person*. This no Body has any Right to but himself. The *Labour* of his Body, and the *Work* of his Hands, we may say, are

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properly his." Less eloquently, but no less clearly, Webster's unabridged dictionary defines "liberty" as "freedom from external restraint or compulsion. . . ."

This concept of liberty as "freedom *from*" is the central component of classical liberalism, from Locke and Mill to Mises and Hayek. In the course of this century, this formulation has often become characterized as the "negative" definition of liberty, implying that it is inferior to some other "positive" definition of this idea. Thus, critics of classical liberalism, assuming the mantle of the true friends of freedom, would have us believe that "liberty" is better defined by its consequences, which somehow must be "good." They fail to understand that the essence of liberty is personal choice, and that we can escape the risks of the abuse of liberty only by escaping liberty itself.

Thus, we can see sunlight as giving us food or giving us skin cancer—and the right to property as giving us landlords to provide people with homes or to exploit their homelessness. Perhaps the main difference between the capitalist (free market) and the anti-capitalist (communist) perspectives on life come down to whether a person perceives an eight-ounce glass containing four ounces of liquid as half full or half empty. Obviously, it is both. Those who want to make the most of what they have are drawn to the philosophy of the market; those who want to feel sorry for themselves for what they don't have, demanding that others make up for their losses, will be drawn to the philosophy of socialism. By redefining liberty in such a way that "it" is not liberty unless it guarantees "good" results—equality of ends not of opportunity—we have witnessed a hugely successful attempt to redefine liberty, without, of course, admitting to this semantic sleight of hand.

The Founding Fathers set forth to form a government "of the people, by the people, and for the people." They envisioned not *good* government, but *limited* government. The Founders did not look to the King of England for permission to think and work as they saw fit; they wanted to be left alone from his influence, or, to use a modern metaphor, they wanted a divorce from George III, not alimony.

Work: A Duty or a Privilege?

The Western mind, steeped in a Protestant work ethic, views work as a privilege, as a source of individual identity, as a means of self-realization—even as an enjoyment. This is the very opposite of the view of work that 70 years of socialism have wrought, especially in the Soviet Union, where people—like Goncharov's Oblomov—have come to view work as a duty to be endured, and preferably avoided. A look at the evening television news confirms this impression: Unlike the settlers in Colonial America, or the newly arrived immigrants from Asia, the people in Eastern Europe and the Soviet Union today do not appear to *want to work*; instead, they appear to *want to have*. They want to eat at McDonald's and wear American jeans, not produce distinctive Russian food or designer clothing for export to the West.

Lacking a moral and ethical philosophy rooted in a sense of history, the people of Eastern Europe and the Soviet Union are constrained by their own present-oriented thinking. Perhaps having been forced by the inadequacies of their economic system to eat hand-to-mouth, they have learned to think and act hand-to-mouth as well—illustrating the interrelationship between the free market in goods and the free market in ideas. It is this widespread destructionist aspect of socialism that Ludwig von Mises revealed more than half a century ago: "Socialism and destructionism . . . use up capital so as to achieve present wealth at the expense of the future. The policy of Liberalism is the procedure of the prudent father who saves and builds for himself and his successors. The policy of destructionism is the policy of the spendthrift who dissipates his inheritance regardless of the future."

So what do the people in the Soviet bloc want—besides national independence? Mikhail Gorbachev is no fool. He hears the people screaming for freedom, but he understands that first and foremost they want what their neighbors in the West have. In his 1990 New Year's address he called for a "humanistic socialism"—what we in the West might call a "kinder, gentler Soviet Union." A clever phrase, albeit not very original: Alexander Dubcek, the First Secretary of the Czechoslovak Communist Party, often used the slogan, "Give socialism back its human face."

Liberal Americans have used the language of "entitlements" and "equality" to appease the discontented and make capitalism appear more "humane." Can we blame liberal Russians for using the language of glasnost and perestroika to appease the dejected and make socialism appear

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more "humane"? Each of these euphemisms sets in motion political programs destined for disaster. Indeed, as Friedrich von Hayek warned, "... nothing has done so much to destroy the juridical safeguards of individual freedom as the striving after this mirage of social justice."

Today, economists both on the right and the left suddenly seem to agree that, as an economic system, "scientific" socialism has failed: It has failed to yield prosperity comparable to that achieved by market economics. The "means" have proved inadequate. But the "ends" of socialism—the "humanistic" distribution of society's goods and services—have remained unscathed.

More important, its goals cannot be tested in the same fashion. Efficiency is a fact: that the Mercedes is better than the Trabant is a fact. But equity is a value; it is, in a sense, meaningless to say that "social justice" is better than "individual liberty" (or vice versa). The amount of goods on the market can be quantified; the value of distributing them "fairly" cannot. To think otherwise is both futile and foolish.

The current fashion of readily admitting the "failure" of socialism—thus seemingly embracing capitalism—may thus be a kind of political-economic Trojan horse. In other words, there is no longer any point in asking: Can the economic *practice* of socialism work? But there is still very much of a point in asking: Can the moral *principles* of socialism be the foundation for a system of government designed to protect the liberty and dignity of the individual? It is worth noting here that one of the most widely quoted critics of Communism today, Zbigniew Brzezinski, not only stops short of equating Communism with socialism, but also avoids criticizing the ethics of collectivism. To him it is merely a "grand failure," not an "evil."

But efforts to characterize socialism as a failure, like those to redefine it in more humanistic terms, evade the central issue—that its "success" would be a far greater catastrophe for humanity than its failure. Gorbachev would have us believe that he can fashion a neo-socialism for the next century that incorporates some type of property rights into the means of production—at least into some of the means, some of the time. His dream thus remains "... finding an organic combination of plan and market methods to regulate economic activity." (*The New York Times*, February 14, 1990)

Protecting Private Property

Wagner's music, said Mark Twain, is not as bad as it sounds. I dare say Gorbachev's economic reforms are not as good as they sound. The desire for, and the appreciation of, private property, if it is to have any real meaning, must come from the people, not the Communist Party. In a society based on respect for property, government is instituted to *protect* property, not to *permit* it. By turning this fundamental premise on its head, the poets of perestroika are composing a new patriotic ballad of oxymorons. If the Republican or Democratic Party were to suggest that individual liberty could exist without persons, everyone would laugh. When the Communist Party announces that socialism can be based on "property rights" that are nevertheless emphatically not the rights of "private persons," virtually all commentators interpret the change and accept it as a major step away from the command economy, toward the market.

Actually, the Russians' ambivalence about private property goes back a long way; it is a disposition the Soviets inherited rather than invented. Consider the following prescient observation made by Count Sergei Witte, Prime Minister of Imperial Russia, in 1905: "... perhaps the main reason of our revolution is a delay in the development of the principle of individualism. ... The principle of private ownership forms today all economic relations: the whole world is based on it." (*The Wall Street Journal*, November 27, 1989)

And what do we hear today, 75 years later? A continued depiction of the idea of private property as a moral evil. Why? Because while for us, in the West, private property implies a need for self-discipline, personal planning for one's future, saving, investing, economic security for oneself and one's family—for the people in the Soviet bloc it implies exploitation, profiteering, the absence of protection by "superiors" (whether feudal lords or Communist commissars). Thus, in a nationally televised address broadcast on November 16, 1989, Mikhail Gorbachev declared: "The Soviet Union is not ready for private property." What, then, is it ready for? "Citizens' property," according to the new "property law" approved by the Soviet Parliament on March 6, 1990.

It would seem, then, that the property the Soviet reformers are now talking about is not real private property in our sense, but a kind of Potemkinian

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property in the classic Russian sense. When Mises coined the phrase "anti-capitalistic mentality," he knew whereof he spoke. But why do the media and the pundits never call Gorbachev and the rest of the neo-reformers unrepentant anti-capitalists?

The new Soviet Communist Party Platform contains other seeming concessions to liberal ideals which, on close scrutiny, are offensive or at least questionable. Seemingly giving more freedom to the people, the Communist Party remains firmly in control. Adopting the language of our own First Amendment, the new Communist Party Platform will recognize ". . . freedom of speech, the press, meetings and demonstrations and the formation of public organizations"—*except* "the formation and activity of organizations and movements that expound violence and interethnic strife and that pursue extremist, unconstitutional aims [which] should be prohibited by law."

That is nothing less than a travesty of *our* principles of freedom: The Founders never intended to grant freedom of speech only to those with whom they agreed; King George III would have been quite happy to concede that much. Nor did they want to limit speech to words that did not upset them or other Americans.

The Gorbachevians, as their platform propounds, have their own paternalistic interpretation of "free speech": They are ". . . prepared for a political dialogue and cooperation *with everyone who favors the renewal of the socialist society* [and] . . . resolutely oppose separatist slogans and movements that would lead to the destruction of the great multiethnic democratic state."

Fortunately, freedom of speech and individual sovereignty seem secure in the United States. Nevertheless, despite this and our adherence to the principle of private property, our own prospects for liberty are on rather shaky ground if we look at the real market place. After all, as Peter Brimelow pointed out in the December 11, 1989, issue of *Forbes*, "One measure of the extent of socialism in a given society is the size of the government sector [or] its spending as a proportion of the gross domestic product." In 1987, total government outlays— local, state, and federal—comprised 37 percent of our GNP. If we also take into account the government's authority to tax and regulate, "control mechanisms" as powerful as ownership, then, "by this measure, the U.S. economy [has] much more of a socialist element than most Americans realize."

Clearly, modern Liberals—in Washington and Moscow alike—prefer to focus on human rights rather than on property rights in order to appear socially concerned. By splitting off property rights from human rights, we have given the former a bad name—and undermined all other rights in the process. But we *know* that property rights are not only as valid as human rights but, in fact, are anterior to, and necessary for, human rights, since, as Madison declared, "in its larger and juster meaning, it [property] embraces everything to which a man may attach a value and have a right . . . [and includes that] which individuals have in their opinions, their religion, their passions, and their faculties. . . ."

Private property is indispensable as an economic base for the formation of a government committed to freedom. But private property, solely as an economic concept, is not sufficient for such a government.

It may be worth remembering here that Adam Smith, who is generally regarded as the father of free-market capitalism, was not an economist (there was no such thing in the 18th century); he was a professor of moral philosophy. As such, his brand of economics made no attempt to be value-free. Today, professional economists and observers of the economic scene err in their efforts to make these human interactions into a value-free social "science." Accordingly, the free market must be espoused not because it "works" (or works "better"), but because it is the only system that recognizes the supremacy and sovereignty of the individual as a human being. The precepts of moral philosophy and economics then cannot be completely separated. They are symbiotic, the one dependent on the other. Mises was right: "It is . . . illegitimate to regard the 'economic' as a definite sphere of human action which can be sharply delimited from other spheres of action. . . . The economic principle applies to all human action. . . ."

The leaders and the people of Eastern Europe and the Soviet Union have yet to understand this. Sadly, we in the United States have also obscured the meaning of this precept. The prospects for liberty in the next century—both at home and abroad—require that we open our eyes to what is happening in the world and think clearly about individual freedom, personal responsibility, private property, and the role of government. And act accordingly. □

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Lessons from the Road: The Evolution of an Eatery

by John Baden and Ramona Marotz-Baden

We spend much of each summer traveling from Bozeman, Montana, to academic and environmental conferences throughout the West. We've had a lot of experience eating on the road. Unless we are in areas noted for fine food—Seattle or San Francisco, for example—our choice for breakfast and lunch has become McDonald's.

Many of our academic, intellectual, and environmental friends view McDonald's with disdain. They see the arches as a font of cultural sin rather than a source of nourishment. Some would rather be seen entering a porn shop than passing through the Golden Arches. Others view it more acceptable to have breakfast whiskey on their breath than a McDonald's shake.

To many of these people, McDonald's symbolizes what they find so objectionable in America. The arches mean plastics and conformity, dead-end alternatives to unionized jobs for the masses. McDonald's represents the antithesis of the sticks, twigs, and sprouts that make up seven-grain vegetarian organic sandwiches.

McDonald's succeeds by identifying a market and evolving to give people what they want as tastes and sensitivities change. However, many environmentalists imply that people want the wrong things. To them, McDonald's success assaults refined tastes and ecological sensitivity. It takes some courage for academics with an environmental bent to defend McDonald's. We do. Here's why.

First, one of Ramona's graduate degrees is in nutrition. She spent several years studying people whose diets contributed to their death. She was delighted when McDonald's hired Hazleton Laboratories, a nutritional testing firm, to prepare *McDonald's Food: The Facts*..., a complete booklet on the nutritional composition of every item on their menu. It guides her choice of a Chunky Chicken Salad with low-fat dressing, an apple bran, no-cholesterol, oil-free muffin on the side, with perhaps a low-fat frozen yogurt for dessert. While major portions of their menu are as bad as Ben & Jerry's premium high butterfat ice cream—e.g., the McD.L.T. with its 580 calories, 36.8 grams of fat, and 990 milligrams of sodium—their muffins, salads, and yogurts may be eaten with a clear conscience.

McDonald's has responded to changing nutritional preferences and knowledge by adding items to their menu, while subtracting saturated fats. Since one American in seven eats in McDonald's each day, these changes are significant.

Second, while we don't have a wide variety at McDonald's, we like to avoid nasty surprises when eating. We appreciate the company's quality control, and we know that we will be served in less than three minutes, will soon be back on the road, and are most unlikely to get food poisoning.

Third, we learned that McDonald's service is usually fast, friendly, and competent. The facilities will be reasonably clean, and our car will be safe while on their lot.

Fourth, it is a pleasure to watch a firm with a

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Environmental iconoclasts John Baden and Ramona Marotz-Baden take a break at the Golden Arches.

commitment to being "the world's best hamburger store" impart a respect for standards to employees. If we had to choose between hiring a youth certified by McDonald's or by a public high school, McDonald's wins.

Finally, whatever their motivation, McDonald's believes that it is good business to stress good corporate citizenship. During the past few years, they led the introduction of more environmentally responsible behavior in the fast food industry. They reduced volume, reused containers, and were working toward recycling plastics and paper. The company's recent decision to renege on commitments to experiment with recycling foam containers, however, was a disappointing concession to environmental symbolism. McDonald's now emphasizes paper packaging for its public relations value, whatever the facts. Scientifically oriented environmentalists lament this lost opportunity for a major national company to experiment with recycling.

We can understand why few academics cheer McDonald's progress and leadership. Many intellectuals and environmentalists are distracted by image and ignore substance. The symbol of the Golden Arches provides a wonderful backdrop to demonstrate one's aesthetic, cultural, and environmental superiority. For some, this imagery is too valuable to yield to mere facts.

The number of these critics, however, is small. McDonald's needn't worry about market share missed. But the critics have influence, and as their numbers grow, McDonald's will respond. We might even see the option of an organically grown, whole-grain vegetarian sandwich in a recyclable wrapper. Knowing McDonald's concern about pleasing people, it will even taste good while reflecting America's changing sensitivities. □

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The 1946 Voter Revolt Against Government Regulation

by Gary M. Anderson

Government seems to grow constantly bigger and ever more intrusive in our lives. Modern history reads like a tale of interventionism run amuck. In a recent *Freeman* article, Robert Higgs outlines the pattern of government growth in the United States in the 20th century.[1] He explains that national crises (e.g., World War I, the Great Depression, and World War II) have contributed to a shift in public ideology, leading to popular acceptance of ever-bigger government. Increasingly, special interest groups have learned to manipulate the political process for their own ends, and the private economy has become a "cash cow" used as the source of governmental subsidies and other forms of favoritism. Before World War II, it was widely believed that government had no business interfering with the private economy in the absence of dire necessity; after the war, Americans generally assumed that government interference was the rule rather than the exception. Majoritarian democracy has become a kind of handmaiden to Big Government. Higgs concludes his essay on a pessimistic note: "as far as the eye can see, we behold only big government and more big government."

In his recent book,[2] Higgs discusses a related development that occurred following both world wars: the federal government *shrank* rather substantially after the close of hostilities. He notes, however, that this shrinkage failed to return the size of the federal government to where it was before the wars started (relative to the overall economy). Government expanded enormously, in both size and scope, during the war, declined significantly after the war, but nevertheless remained on a higher "growth path" than would otherwise have been the case. In short, after hostilities ended and the troops were demobilized, both wars left the federal government significantly larger even in the long run.

This process of postwar shrinkage in the size and scope of government has received relatively little attention from scholars. Even defenders of free markets have largely focused their attentions elsewhere. However, the postwar government shrinkage deserves our attention for two reasons. First, this reduction in intervention and expenditure is interesting in its own right. We do not ordinarily expect to see government growing smaller, because all of the incentives facing politicians and bureaucrats reward those individuals for making decisions that cause government to grow *larger*. Second, defenders of the free society need to consider this postwar reduction in governmental interventions in the economy as it may apply in more ordinary circumstances. A careful consideration of these episodes provides grounds for optimism. Particularly significant was the demise of price controls after World War II. We *know* that Big Government can be stopped, because in the recent past, it *has* been stopped—at least, temporarily.

World War II

The federal government exploded in size during World War II. Spending by Washington grew from $10 billion in 1940 to a (what was at the time) mind-boggling $100 billion in 1944. Obviously,

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most of this growth was in the form of military spending. For example, the U.S. Army had about 187 *thousand* men in 1939; this number rose to over 8.26 *million* in 1945. The United States produced 300,000 war planes, 100,000 tanks and armored vehicles, 124,000 ships, and 41 billion rounds of ammunition during World War II, to mention a few examples.[3]

But at the same time the federal government was buying tanks, planes, and ships needed to fight enemy forces, it was expanding its activities in realms that had a more dubious relationship to the efficiency of waging war. The War Production Board (WPB) became America's central planning agency, replacing allocation of resources by the market with allocation by Federal bureaucrats. Instead of offering market prices for military items, the federal government used the WPB to force industry to convert to war production from consumer goods. In this way, the government coerced private industry to accept prices for war goods far lower than the free market would have determined.[4] The War Labor Board regulated wages. The Office of Civilian Supply administered the civilian sector. And the Office of Price Administration (OPA) controlled virtually all prices. These various "war agencies" employed 151,551 people in 1945.[5] In that year, the various bureaucracies that controlled prices and wages alone cost $389.1 million to operate.[6]

Federal price controls weren't restricted to goods directly related to the war effort, like armor plate or chemicals needed for explosives, but were essentially universal. All important consumer goods were price controlled. Rents were especially tightly controlled. All told, about 650 separate price controls were in effect during the war years.[7]

Moreover, these controls were not mere requests, but were strictly enforced. Failure to obey the price regulations was a crime. Between February 1941 and May 1947, the OPA instituted 259,966 sanctions on violators of price regulations, including 13,999 Federal criminal prosecutions and 5,127 local criminal prosecutions.[8] During the period 1941-1945, the federal government seized under Presidential authority (and, in effect, temporarily nationalized) 73 industrial plants.[9]

This extensive price control reduced the efficiency of the economy, and therefore raised the real costs of the war effort. A better policy would have been to interfere as little as possible in the operation of the free market, and pay the prices for war-related goods that reflected the true conditions of supply and demand. However, as Robert Higgs points out, controlling prices had a big advantage for politicians anxious to protect their re-election prospects. Price control made the cost of the war *seem* to be lower than it really was. Nominal tax revenues collected could be lower. The apparent size of the Federal deficit could be made to look smaller. Unfortunately, while this "shell game" may have reduced re-election anxiety among politicians, it lowered economic efficiency, produced shortages, and led to a massive system of rationing that was rank with political favoritism.[10]

In an important sense, this expansion of the federal government into central planning was more ominous than the rapid growth in actual spending, although the latter was easier to measure and hence seemed more dramatic. It would have been very hard for government to justify such huge military budgets in peacetime, and so there was a strong built-in pressure to reduce spending after victory was achieved. But the regulatory apparatus was much more insidious. Since it had nothing directly to do with the war effort (i.e., it contributed nothing to military strength), it was less obvious why the cessation of hostilities should lead to deregulation. Granted, the heavy burden of regulation was claimed to be a necessity of wartime. But the same arguments (the supposed need for "stabilization," "production rationalization," and for "controlling inflation") that were used to justify the massive increase in regulatory activity during the war could potentially be applied with equal force after the war had ended. More to the point, bureaucrats *like* to regulate, planners like to plan, and controllers like to control. A huge regulatory bureaucracy was in place and ready to insist that the country could not survive without continued central planning. If the planners had been left to their own devices, postwar deregulation would not have happened. We would be living in a centrally planned economy today.

Fortunately for the U.S. economy, this dismal projection did not come to pass. Simply stated, the voters demanded an end to wartime planning. This was especially the case with regard to price controls.

There was strong public support for the war against the Axis powers, so most people were pre-

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disposed to accept any measures the federal government declared to be essential for ultimate victory. Even during the war, though, public support for price controls was lukewarm. Many people had trouble with the idea that granting Federal bureaucrats power to set prices was necessary for military victory. For example, in November 1943, when patriotism was running very high, a *Fortune* magazine poll found that only 29.4 percent of respondents thought that the Office of Price Administration was doing a good job; 30.8 percent rated its job as "poor," 24 percent "medium," and 15.8 percent didn't know. In other words, at the height of the Second World War, over 70 percent of respondents *did not* think that the OPA was doing a good job.[11]

The Black Market

Additional evidence of weak public support for price controls was the thriving black market for price-controlled and rationed goods. Naturally, because open violation of price regulations was illegal, "official" data on the size and scope of this activity is hard to come by. But there are indications that the black market was substantial. For example, in 1944 alone, the OPA found 338,029 separate violations of its regulations, and prosecuted 9,260 people (the remainder of the cases receiving some lesser penalty).[12] Food, clothing, gasoline, consumer durables, and even apartments were readily available on the black market. Of course, this is only indirect evidence of the lack of public acceptance of price controls, but such "cheating" was generally viewed by average people as not hindering the war effort in any way. Many patriotic Americans bought sugar and gasoline on the "black market."

Nevertheless, most indications suggest that the general public at least tolerated the various wartime economic regulations. Most people took the federal government at its word that war regulations were just that, and would be lifted after victory was achieved.

As the war came to a close, much of the Federal regulatory apparatus was lifted, just as the Army was gradually demobilized and orders for tanks, planes, and ships were cancelled. This "reconversion" did not, however, secure the enthusiastic support of all the wartime bureaucracy. Many Federal war regulators and administrators fought bitterly, albeit unsuccessfully, to retain their bureaucratic fiefdoms in peacetime.[13]

The protests of the price controllers against peacetime deregulation were more successful than many of the similar efforts by their regulatory colleagues. Predictably, the professional price controllers were not eager to set prices free—and put themselves out of jobs. Almost immediately following the cessation of hostilities, the OPA bureaucracy began to insist that many price controls were still necessary in peacetime. OPA argued that the retention of strict price controls (combined with detailed regulations restricting clothing style changes) was "indispensable in upholding its stabilization program."[14] In October 1945, OPA's price controls on building materials were actually strengthened. Price Administrator Chester Bowles strongly opposed removing price controls on housing. In November 1945, price controls remained in effect for rubber, tin, lead, various chemicals, housing, newsprint, containers, textiles, clothing, leather goods, and other products. The price-control law was due to expire in June 1946, but the OPA let it be known that "at a minimum" price controls would be "required" until at least the end of June 1947![15] The clear implication was that, in the OPA's view, controls might be "needed" indefinitely. At the end of July 1946, this extension was duly enacted.

Instead of leading the fight for the restoration of free market prices, economists had almost all joined the other side. One historian notes that the "unanimity" of support for continuing controls among professional economists was "remarkable."[16] The list of prominent economists who signed a petition favoring extension of price controls makes for surprising, and depressing, reading. Ludwig von Mises was a courageous exception, and voiced his strong opposition to price controls.[17] So the system of peacetime price controls met with the approval of both the price controlling bureaucrats and professional economists. Politicians in Washington, too, thought price controls were a good idea. Continuing controls had strong support in both Congress and the Administration. Congress approved the "emergency" extension of price controls until June 1947 and, although there were various political squabbles about specific price controls, generally supported the idea of continuing controls in peacetime. President Truman also found continuing controls

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attractive, again with various political caveats.[18]

Significantly, one important group refused to join in approving perpetual price controls: the voters. Ordinary citizens subjected to "price stabilization" without end grew increasingly angry. Industrialists began to become alarmed; the National Association of Manufacturers ran a vigorous advertising campaign promoting decontrol.[19] A September 1946 Gallup Poll showed that majorities now favored decontrolling meats and other foods, and only a minority favored continued controls on autos, radios, and other manufactured goods.[20] The fall of 1946 saw a de facto farmers' strike, with meat producers refusing to bring meat to market until controls were lifted.[21] The average voter wasn't trained in economics, didn't understand the ill consequences of interfering with the price system, and accepted the official view that price controls during the war were necessary for victory. But after the war ended, they grew annoyed that the price controls continued.

The 1946 Election

Fortunately, the voters had a chance to voice their objections where they counted most—at the ballot box. On November 5, 1946, many sitting Congress members were firmly told by their constituents to find other lines of work. In the House of Representatives, a Democratic majority became a Republican majority, with the latter picking up an astounding 57 seats. In the Senate, the Democrats also lost their majority, with the Republicans garnering 13 seats.

What is important to note here is that the new Congress members were overwhelmingly committed to ridding the economy of price controls, and other lingering wartime regulations, once and for all. Former President Herbert Hoover was perhaps guilty of slight hyperbole, but nevertheless on the mark, when he commented: "The whole world, including the United States, has for years been driving to the left on the totalitarian road of 'planned economy.' America is by this election the first country to repudiate this road."[22]

Surely price control was only one of many issues in the 1946 Congressional elections. Furthermore, price controls were being gradually lifted on various items before the election, although not as a matter of principle; the OPA and other regulators made clear that decontrols allowed on particular items were basically "temporary," and that controls might be slapped back on at any time. Rather, price control was important as a symbolic issue. The existing group of elected officials in Washington had demonstrated a weak commitment to a complete transition from war regulation to a peacetime free market, and an eagerness to retain as much of the wartime regulatory apparatus as they could get away with. The response by American voters, who had voted *for* the same politicians in 1944 (a year considered a significant victory for the Democratic Party) that they voted *against* in 1946, was swift and decisive.

The turnabout by Federal bureaucrats and politicians in their expressed opinions about the wisdom of continuing price controls was equally swift. Nothing strikes fear in the hearts of politicians like an election. Price Administrator Chester Bowles, who on November 4 (the day before the election) had called for a halt to price decontrol "until supply and demand came into balance," had a sudden change of heart and approved immediate removal of virtually all remaining controls on November 10 (five days *after* the election).[23] The day before, President Truman had ordered the immediate removal of all remaining controls.[24] This policy shift must be one of the most abrupt on record.

Of course, this was but a temporary victory. Take government spending for example. By 1948, Federal expenditures had declined from their wartime peak of $100 billion to a low of $35 billion. But Federal spending did not continue to shrink, and began a 40-year period of sustained growth. Even the victory of voters over price controls was temporary; controls were again implemented during the Korean War and under President Nixon. The price of liberty is eternal vigilance, and the vigilance of American voters has lapsed on numerous occasions. Nevertheless, there *was* an important victory that we need to recognize: the United States returned to a largely free market economy after its brief flirtation with "war socialism."

Conclusion

It is easy for defenders of private property and free markets to become discouraged by contemplating the avalanche of government regulation coming out of Washington. Strong pressure for bigger and more intrusive government comes from

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organized special interest groups, and sometimes it seems voters have abandoned their right to say "Enough!" at the ballot box. But we must remember that ordinary citizens have on many occasions effectively exercised their franchise to stop Big Government in its tracks, or at least slow it down. Proposition 13 in California is one famous example. The voter revolt against Congressional "central planners" in 1946 is another example which is not as well-known as it deserves to be.[25] Government *can* be reduced by voters; those voters just need to be convinced that less government is the right course. Democracy in itself does not necessarily imply bigger and bigger government.

There is another interesting aspect to postwar government shrinkage that should inspire hope for the future. In 1946, support among professional intellectuals for decontrol and deregulation was virtually nonexistent; economists were almost unanimously in favor of continuing controls. Despite this lack of intellectual support, the "voter revolt" against Big Government succeeded. Today, growing numbers of professional intellectuals, including economists, support deregulation and limited government. The prospects for radical limits on government intervention have probably never been better than they are in the 1990s. □

1. Robert Higgs, "The Growth of Government in the United States," *The Freeman*, August 1990, pp. 290-95. Higgs explains the role of "crises" in promoting government growth on pp. 294-95.

2. Robert Higgs, *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (New York: Oxford University Press, 1987).

3. The direct cost to the United States government of prosecuting the war against the Axis powers was tremendous. It is difficult to determine whether victory might have been achieved at lower cost by the pursuit of alternative strategies, but there is one piece of convincing evidence that the actual pattern of Federal military spending was fairly "efficient" in a technical sense: the United States (along with its allies) won the war. Whether U.S. involvement in the war was "efficient" in the *economic* sense, in the long run, is an entirely different question. Ludwig von Mises thought the answer was yes, and wrote of the choice between freedom and slavery in a "Nazi-dominated world" (*Omnipotent Government: The Rise of the Total State and Total War* [New Haven: Yale University Press, 1944], p. 237).

4. Richard Polenberg, *War and Society: The United States 1941-1945* (Philadelphia: J. B. Lippincott Company, 1972), pp. 10-11.

5. Hugh Rockoff, *Drastic Measures: A History of Wage and Price Controls in the United States* (New York: Cambridge University Press, 1984), p. 123.

6. Hugh Rockoff, "Price and Wage Controls in Four Wartime Periods," *Journal of Economic History*, XLI (June 1981), p. 390.

7. U.S. Civilian Production Administration, *Industrial Mobilization for War: History of the War Production Board and Predecessor Agencies, 1940-1945; Volume I: Program and Administration* (Washington, D.C.: Government Printing Office, 1947), p. 956.

8. Rockoff, *Drastic Measures*, p. 163.

9. John L. Blackman, Jr., *Presidential Seizure in Labor Disputes* (Cambridge: Harvard University Press, 1967), pp. 259-76. Relatively few seizures involved OPA directly, but most stemmed in part from price or wage control violations.

10. Higgs (*Crisis and Leviathan: Critical Episodes in the Growth of American Government*, p. 209) notes that the 8,000 local rationing boards represented an "empire of petty tyrannies" in which cronyism was rife.

11. This poll, which appeared as the "Fortune Survey" in the November 1943 issue of *Fortune*, is reported in Rockoff, *Drastic Measures*, p. 95.

12. Rockoff, *Drastic Measures*, p. 143.

13. See Polenberg, *War and Society*, chapter 8, for a good summary of this "reconversion" to a decontrolled economy.

14. U.S. Civilian Production Administration, pp. 952-53.

15. Rockoff, *Drastic Measures*, p. 100.

16. *Ibid.*, p. 101.

17. For example, in *Omnipotent Government* (1944), Mises condemned the use of price controls by the American and British governments, and commented: "These men who want to fight Nazism by adopting its methods do not see that what the Nazis have achieved has been the building up of a system of socialism, not a reform of conditions within a system of market economy" (p. 63). Price controls in Nazi Germany were even more oppressive than those promulgated by the OPA in the U.S. See also Mises, "Inflation and Price Control," in *Planning for Freedom* (South Holland, Ill.: Libertarian Press, 1952, pp. 72-82, originally published December 20, 1945).

18. Some insight into Truman's thinking about controls can be gleaned from considering his reaction to the meat shortage that became evident in the summer of 1946. He blamed Congress for causing the meat shortage when it delayed the passage of the extension of price control, accidentally permitting meat prices to be freed for almost a whole month! See Rockoff, *Drastic Measures*, p. 107.

19. *Ibid.*, pp. 103-104.

20. *Ibid.*, p. 101. Rent controls continued to receive majority support.

21. *Ibid.*, p. 107.

22. *The New York Times*, November 6, 1946, p. 2.

23. *The New York Times*, November 10, 1946, p. 1.

24. However, controls remained over rents, sugar, and rice. See Rockoff, *Drastic Measures*, pp. 107-108.

25. Admittedly, sometimes voter opposition to Big Government ultimately fails. See David T. Beito, *Taxpayers in Revolt: Tax Resistance During the Great Depression* (Chapel Hill: The University of North Carolina Press, 1989) for a fascinating account of the forgotten but vigorous "tax revolt" movement in America during the Great Depression. Pro-interventionist historians would prefer to pretend that no opposition existed to the New Deal and high taxes.

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Wilhelm von Humboldt: German Classical Liberal

by Richard Miniter

John Stuart Mill's *On Liberty* is probably one of the best known, and most unabashed, liberal works ever published. Mill's seminal defense of freedom of thought, speech, and action is widely acknowledged. Less well known are the writings of his intellectual precursor and some might say inspiration, the German liberal and author of *The Limits of State Action*, Wilhelm von Humboldt.

Mill began *On Liberty* around 1854, when Humboldt's work was first published in English. The question of whether Humboldt stimulated Mill to write his famous essay is open to debate, yet Mill's frequent references to Humboldt in the text suggest a connection. In Mill's *Autobiography* he writes, "[t]he only author who had preceded me . . . of whom I thought it appropriate to say anything, was Humboldt." Mill cites Humboldt as a formative influence, quoting him directly and in paraphrase throughout *On Liberty*. "Few persons, out of Germany, even comprehend the meaning of the doctrine which Wilhelm von Humboldt, so eminent both as a savant and as a politician, made the text of a treatise," wrote Mill in chapter 3 of *On Liberty*.[1]

That "celebrated treatise," in the words of *The Westminster Review*, is *The Limits of State Action*, which "ushered in a new era" in political theory. Humboldt's thinking about the self-development of man and the role of the state inspired several thinkers to publish political essays.

Born in 1767 to a noble family, Humboldt gained renown as a humanist, a linguist, an education reformer, and a Prussian diplomat. He was among the greatest of Germany's liberals, a tradition which passed from prominence sometime before the middle of the last century. He stood strongly against state intervention—despite holding some of the highest posts in Prussia. Lord Acton called Humboldt "the most central figure in Germany" of his time, noting his close friendship with Goethe and Schiller. He was respected as both a scholar and a statesman. He founded the University of Berlin. German schoolmasters remember him as the architect of the German educational system and as an accomplished scholar in history, classical literature, and linguistics. Linguists, such as Noam Chomsky, still cite his work. He served as the Prussian emissary to the Holy See and was Prussia's chief negotiator at the surrender of Napoleon's armies.

Humboldt learned political philosophy the way he advocated all education should take place: through a series of voluntary associations. He became a regular member of the circle of Henriette Herz, a leading Jewish intellectual. He joined several mutual improvement societies in Berlin and entered into "self-examining and explaining correspondence."[2] Through his future wife Caroline von Dacheroden, Humboldt met Friedrich

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Schiller, perhaps the greatest of the German romantics after Goethe. After meeting Schiller several times at Weimar and Jena, Humboldt kept up a regular correspondence with him. Later, he became a close friend of Goethe's, as well.

Through a broad spectrum of experiences, Humboldt set out to develop a well-cultivated, unique, and sensitive personality. He wanted to animate all that was latent within himself, to become all that he was capable of being. Such an experiment in living required freedom ("the first and indispensable condition"), a variety of people and situations, and individuality. Each of these components can be found in a more developed form in *The Limits of State Action*, and for that matter, in Mill's *On Liberty*.

The French Revolution

At the beginning of what was to become a lifelong trek toward self-improvement, Humboldt found himself in the midst of Europe's living laboratory of political science: revolutionary France. In the summer of 1789, Humboldt's former tutor was invited to Paris by Mirabeau and took young Humboldt along. Mirabeau showed the pair the National Assembly at Versailles and the grave of Rousseau. But Humboldt had doubts about the future of the French Constitution and its bold plans to remold French society—by force, if necessary. He felt strongly that force impedes self-development, retards natural social evolution, penalizes innovative thinking, and rewards only conformity to the imposed order.

After returning from France, and corresponding with his friend Friedrich von Genz, a supporter of the revolution, Humboldt wrote *Ideas on the Constitutions of States, occasioned by the New French Constitution*. In this essay, published anonymously in 1791, he expressed doubts about the results of reshaping a society by force of law. Intended as a letter to a friend, this essay anticipates some of the ideas covered by Edmund Burke in *Reflections on the Revolution in France*. More interesting still, Humboldt at this point had no knowledge of Burke. As Burke did, Humboldt believed that nations and constitutions had to evolve naturally, not called into existence by parlor philosophers without great peril. "Reason is capable to be sure of giving form to material already present, but it has no power to create new material. . . . Constitutions cannot be grafted upon men as sprigs on trees," Humboldt wrote.

Self-Development versus State Action

When he returned to Berlin, Humboldt was given a minor post at the law court. But soon he realized that public life had become controlled and thus grew anxious to leave Berlin. Liberalism in Germany had all but perished with Frederick the Great in 1786. Restrictions on freedom of the press and free exercise of religion were imposed with a new vigor. Government censors would, in some cases, require approval of articles prior to publication. Humboldt found little spontaneity and diversity in the life of the civil service and the court. Whatever opportunities for self-development may have existed, Humboldt felt his education had been arrested. Needless to say, he was ill at ease with the rulers of Prussia, although he remained wisely silent at the time.

Despite the urging of friends, Humboldt resigned his government post in the spring of 1791. Believing he could not prevent much evil or do much good in public office, he entered semi-retirement at Tegel, the family estate, to devote himself "entirely to the cultivation of his friends, his newly married wife, and himself."[3]

His self-development—not to be confused with selfishness, but a genuine desire to become a better, fuller person—had become all-important. In August 1791, Humboldt wrote to Georg Forster:

> I have now absolved from all business, left Berlin, married, and live, in the country, an independent, freely chosen, infinitely happy life. . . . I do not feel from you such disapprobation of my step as I met with from so many others. You esteem liberty and independent activity too highly to expect much utility from a man only dependent on his official position. . . . The axiom that nothing on earth is so important as the highest power, and most varied cultivation of the individual, and that, therefore, the primary law of true morality is, *educate yourself*, and only the second, *influence others by what you are*; these axioms are so firmly impressed upon my mind that nothing can change them."[4] (italics mine)

Perhaps no shorter summary of Humboldt's

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political philosophy could be written. *The Limits* is a more formal and complete statement of Humboldt's philosophical opposition to state intervention in the natural and necessary self-development of its citizens.

The Limits of State Action

In thinking over his exit from the Prussian bureaucracy, Humboldt began to reconsider the proper functions of the state. It didn't square with his idea of a many-sided self-development. He considered all governments of his day too large to provide the social conditions that enable human development. This view is directly opposed to the one widely held today and warrants some explanation.

Since a large state inevitably leads to an increase in the amount of force the government wields over society and individuals, and since power cannot long tolerate freedom or a diversity of views, a state seeking to provide for anything more than their physical safety ultimately ends up stifling its citizens. A limited state, in which individuals are able to flourish with the aid of genuinely social institutions (such as unregulated churches and schools), can protect its citizens from foreign invasion and domestic violence. But, Humboldt argues, a welfare state erects barriers between the individual and the society in which he lives. By freely interacting with the world around him, an individual seeks newer, better methods of solving common problems. Some of these methods he will come upon on his own; some innovations will be learned from others. This is the source of social progress in a liberal society. By dictating the terms under which people form associations, the state deprives such associations of their essential vigor and spontaneity. Thus, the transmission of new ideas is slowed and, when the state gains enough authority to regulate all of society, soon stops altogether.

In a sense, Humboldt's political theory is aesthetic: the individual is a work of art. While styles and techniques can be learned from others, the artist must hone his skills over time and learn to express himself in finer, subtler ways. Commands issued from a central authority cannot create art. Art can only be created by the free and spontaneous interplay of ideas between the artist and his subject.

This was the form of his ideas when Humboldt's friend Karl von Dalberg pressed him for his findings. The two began a debate which soon led Humboldt to write *The Limits of State Action.*

Young Humboldt wrote this tract in 1791. "At a time when the ideas which it unfolds were in striking contrast to the events and opinions of the day, the book was long obnoxious to the scruples of German censorship."[5] Only passages from *The Limits* were published by Schiller. Joseph Coulthard notes that Schiller "took much interest in its publication, [yet] had some difficulty in finding a publisher willing to incur the necessary responsibility."[6]

Humboldt never strayed far from the work he penned in his early 20s.[7] He made several revisions to *The Limits* during the course of his life, both before and after his years of service at some of the highest posts in the Prussian state. *The Limits* was finally published 17 years after his death. The manuscript remained incomplete and less polished than Humboldt's other works. Some gaps appear in the text, yet it helped shape the arguments of many 19th century liberals.

In *The Limits* Humboldt argues for a conception of happiness based on what he considers a natural drive for self-development. It is in freely choosing and pursuing self-development "and in striving to reach it by the combined application of his moral and physical energies that the true happiness of man, in his full vigor and development, consists."

What is the goal of this drive for self-development, which Humboldt describes as the source of happiness? "The true end of man, or that which is prescribed by the eternal and immutable dictates of reason, and not suggested by vague and transient desires, is the highest and most harmonious development of his powers to a complete and consistent whole."

This end—harmonious self-development—is not a fixed point that can be completely captured or "possessed." As in the natural world, "we find that rest and possession exist only in imagination." And because it cannot be possessed, it cannot be given by the state to interested individuals. It must be pursued by each person in his own way.

Humboldt's conception of man, as a being who must strive for self-cultivation within society and who requires society for his full development, is an important contribution to the liberal tradition. Scholars outside the tradition of Adam Smith, David Hume, and Herbert Spencer might antici-

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pate Humboldt's emphasis on the individual, but may be surprised by his positive view of society. Liberals are often criticized as "atomistic individualists"—self-interested islands who prefer to hold society at a distance. Humboldt's arguments challenge the conventional wisdom that the individualistic premises of liberal thinking necessarily exclude society and community. In fact, society and its institutions are what Humboldt wants to save from the power and grip of the state.

Humboldt and Educational Reform

Humboldt is probably best remembered for reforming German education. Education was the social institution Humboldt cared most about —although, at first, he resisted being made Minister of Public Instruction charged with reforming German schools.

He brought a radical conception of education to the post. His revolutionary ideas were soon institutionalized and remained in place, with some modifications, well into this century. Humboldt's tenure as Minister of Public Instruction was said to be as masterly in organization as that of Prussian generals in war. What is interesting about this assessment is that Humboldt held the post for a scant 16 months.

When Humboldt joined the liberal reform government in 1809, he advocated the abolition of military schools and the closing of schools catering to the nobility, and opposed the creation of special middle schools for adolescents either uninterested or financially unable to undertake university studies. Humboldt wanted German schools to be places where a wide diversity of students would study together, free of state-imposed barriers.

The cornerstone of Humboldt's educational reforms was the humanistic *Gymnasium*. Based on the classical languages and literatures, the *Gymnasium* remained the dominant educational institution in Germany until the second half of this century. Humboldt considered a student's mastery of the literature and philosophy of the ancients, especially the Greeks, a key foundation to genuine education. The University of Berlin, which Humboldt founded, and much of Humboldt's design of the educational system are still in place. Leaving aside the apparent violation of his earlier injunctions against state control of education, the reformed system is remarkably akin to the system he advocated years earlier. Through the imprint they left on a key sector of social life, Humboldt's ideas have had an enduring influence on German intellectual development.

From 1810 to 1813, Humboldt was the chief Prussian diplomat in Vienna. He acted as a head negotiator both before and after Napoleon's defeat, and served in London for the Prussian crown. In 1819, Humboldt fought the passage of the Karlsbad Decrees, which would have imposed rigid censorship throughout Germany. When his efforts failed, Humboldt retired to private life. He refused the pension offered him by the king and returned to his estate to study languages and pursue other scholarly work. He died in 1835.

Humboldt's legacy is more than a string of political acts and scholarly contributions. *The Limits of State Action* offers a coherent and early defense of laissez-faire society without a single recourse to economics. For students of humanities, Humboldt's work provides a solid and engaging introduction to liberal thought. □

1. Humboldt also influenced Matthew Arnold, who disagreed with him, however. See Arnold's *Culture and Anarchy*, especially chapter 3. Arnold cited directly Humboldt's ideas on education in *Schools and Universities on the Continent*.

2. Juliette Bauer, *Life of Wilhelm von Humboldt* (London: Ingram, Cooke, & Co., 1852) p. 250.

3. Introduction to *The Limits of State Action* by Wilhelm von Humboldt, edited by J. S. Burrow (New York: Cambridge University Press, 1969), p. ix.

4. Bauer, pp. 277-78, citing Humboldt's letter of August 16, 1791, to Forster.

5. Wilhelm von Humboldt, *The Sphere and Duties of Government*, edited by Joseph Coulthard (London: Trubner & Co., 1854), p. iii (from Coulthard's Introduction).

6. *Ibid.*

7. This is not an uncontroversial statement. Some writers uphold Humboldt's constancy of conviction; many do not. John Chapman wrote in the July-October 1854 issue of *The Westminster Review*, ". . . however startling to some may be its doctrines, it has all the authority due to the long sustained convictions of a man of extraordinary capacity. . . ."

A majority of historians and philosophers who have examined Humboldt hold differently, however. See Leonard Krieger, *The German Idea of Freedom* (Chicago: Beacon, 1957), pp. 170-71; and Paul Sweet's excellent *Wilhelm von Humboldt: A Biography*, 2 vols. (Columbus: Ohio State University Press, 1978, 1980), vol. I, p. 108, vol. II, p. 20. Sweet also has an appendix in the first volume dealing with the reception of *The Limits*.

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The Growth of Privatized Policing

by Nicholas Elliott

Privatized police! The suggestion is usually met with disbelief, even by free-marketeers who would like most other government services shifted into the private sector. But there are good arguments to justify privatization of at least some policing functions, and few are probably aware of the spread of privatized policing that has been taking place both in the United States and in Britain.

Many object to private sector involvement in policing and criminal justice because they say that it is the state's responsibility to maintain law and order. This view fails to take into account the origins of rights. In liberal democracies, rights are considered to reside originally with individuals. The responsibility of law enforcement is only ceded to the state so that rights may be protected more effectively. The state does not own the right to enforce the law, it administers this right on behalf of the people. Therefore, there is no reason in principle why private individuals should not have law enforcement duties delegated to them, as long as they are responsible to the same system of law under which the state operates. This point has been argued by James Stewart, Director of the U.S. National Institute of Justice: "Although law enforcement is rooted in constitutional principles, the responsibility of government to ensure security need not necessarily mean that government must provide all the protective services itself."[1]

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Those who argue against private policing often assume that it is only the police who ensure that laws are observed at all, that there is a sharp demarcation between the policeman and the citizen. This disregards the role that individuals have always played in keeping order just by going about their daily business. As urban analyst Jane Jacobs writes: "The first thing to understand is that the public peace—the sidewalk and street peace—of cities is not kept primarily by the police, necessary as police are. It is kept primarily by an intricate, almost unconscious, network of voluntary controls and standards among the people themselves, and enforced by the people themselves."[2]

A Growing Industry

Private sector police are nothing new. Until the middle of the 19th century most of Britain's policing was provided by groups known as "Associations for the Prosecution of Felons." These groups provided law enforcement, crime prevention, and insurance services to their members.

More recently, there has been a steady growth in the private security industries of Britain, the United States, and Canada. In each of these countries there are now more private security guards than official policemen.

More policing services are being contracted out to the private sector by the official police forces and by local government; and as private individuals become more affluent, they are showing more

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willingness to buy additional security from the private sector. There is evidence that private firms can often do the same job more efficiently and more cheaply.

All over the United States, different types of police service are being performed on contract by private firms. In Amarillo, Texas, local police have authorized a private security company to respond to alarm calls. Nearly three-quarters of American cities have contracted out the removal of illegally parked cars. A 1986 survey by Hallcrest Inc. found that 44 percent of U.S. law enforcement officials contract out the patrolling of public property.

In Fresno, California, 21 private security firms provide security at shopping centers, in apartment complexes, at concerts and sporting events, and at the city convention center and zoo. The firms provide their services to the city for $10 per hour, compared to the cost of $59 per hour if the police were to do the job.

Los Angeles County awarded 36 contracts for guard services between 1980 and 1984 and "county data show that the cost was 34 percent greater when the work was performed by county personnel."[3]

Policing functions frequently contracted out in the United States include prisoner custody, communications system maintenance, police training, laboratory services, radio dispatching, and traffic and parking control.

Other examples come from Europe. Private security firms in Bavaria are used to patrol the Olympic Park grounds, university sports arenas, a mental hospital in the suburbs of Munich, and the Munich subway. In Switzerland the private company Securitas employs 1,700 guards throughout the country to provide police backup services. Securitas has contracts with the police and with municipalities for such services as visiting restaurants and bars to ensure compliance with licensing laws, and patrolling parking lots and railway property. In the United Kingdom, a survey by *Police Review* found over 1,000 private security patrols in operation, including 239 patrols operated by private firms on behalf of local authorities.

Bromley Council in London was the first to use a private firm to patrol housing estates. The council hired Sentinel Security to provide patrols in crime-ridden areas.

Some local authorities also take on their own non-police security guards. At Livingston in Scotland, 42 council guards equipped with radios patrol housing and shopping precincts. The patrol is run by a former police sergeant who reports that "residents say they feel safer going out at night because of our patrols."[4]

A Further Stage

In a few instances, the whole policing of an area has been contracted out to a private firm. The first city to try this was Kalamazoo, Michigan. A private firm was given responsibility for street patrols and for the apprehension of traffic offenders for three and a half years in the 1950s.

One of the most successful examples is the small town of Reminderville in northern Ohio. Faced with having to pay $180,000 a year for continued county policing, residents decided in 1981 to hire Corporate Security Inc. for $90,000 per year. The firm also increased the number of patrol cars in the area, and improved the emergency response time from the previous 45 minutes to six minutes.

The private company was motivated to keep costs down because they were paid a flat yearly fee, and because they wanted to retain the contract. Adverse publicity for this radical experiment disturbed local officials who then set up their own town police department at higher cost in 1983.

Another example of fully contracted out police services is from Oro Valley, Arizona. There, firefighting, police services, alarm response, and paramedic operations were provided to 1,200 residents by the company Rural/Metro. The contract was agreed in 1975, with a flat yearly fee of $35,000 to be paid to Rural/Metro, a saving over what the same state services would have cost. Overall control of policing was retained by the town authorities.

During their time in securing Oro Valley, the company employed some innovative operating methods. They patrolled in four-wheel drive vehicles on difficult roads. They initiated a "dark house" scheme whereby residents who planned to be away could leave their addresses with the company, and their property would then be checked twice every 24 hours. Burglary rates in the area fell from 14 a month to an average of 0.7 a month.

However, the Rural/Metro contract encountered opposition from the Arizona Law Enforcement Officers Association Council, who refused access to training programs and refused to grant

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accreditation. When a state attorney questioned the legality of the arrangement, Rural/Metro decided to pull out.

Notably, when the town authorities took over full provision again in 1977, many costs increased. One change was to replace the civilian employees of Rural/Metro with uniformed officers on higher salaries. By 1982 the police budget in Oro Valley was $241,000 when Rural/Metro had done the job for $35,000.

Neighborhood Initiatives

In Britain and the United States, there has been a proliferation of neighborhood patrols, where residents take the initiative in patrolling their own locality.

On the Brunton Park and Melton Park estates in Gosforth, Newcastle, U.K., residents started their own patrol to deter thieves. Pairs of residents patrol the area in cars between 11 P.M. and dawn, reporting anything suspicious to the police. In three months of patrols only three break-ins occurred, compared to a previous annual average of 130. As a result, these residents have had their home-contents insurance reduced by 35 percent.

One growing form of private initiative in the U.S. is that undertaken by homeowners associations. There are estimated to be over 90,000 of these associations in the United States. According to the Community Associations Institute, 25 percent of them provide manned security for their members, and 15 percent provide electronic surveillance.[5]

In other instances, neighbors get together to hire security for themselves. Residents of a street at Blackfell in Tyne and Wear, U.K., hired a private security firm to cut break-ins and car thefts. One resident explained that "The police would come round after a crime was reported but usually could do little more than take the details from the injured party and offer sympathy."[6]

Residents of East Graceland in Chicago hired a private security firm to drive out gang warfare from their neighborhood. They took on Security Enforcement Services for two months in 1989 for a charge of $8,000. Rather than strong-arm tactics, the company used intelligence to rid the area of crime. They became familiar with the known trouble spots and offenders, as well as with residents. They videotaped illegal activities such as vandalism and drug dealing, and then handed the tapes over to the official police.

The most unusual example of private initiative comes from San Francisco. The city is divided into 80 "beats," which are sold by the Police Commission to Patrol Specials deputized with peace officer powers (one step down from police officers). Beat-owners then seek business among the companies and neighborhoods in the beat area. The Patrol Specials must pass a rigorous selection procedure, before being sent on an arrest and firearms course at the police academy, and must answer to the Police Commission. The Specials cost nothing to San Francisco taxpayers, and they have endured since the 1800s.[7]

The private sector in law enforcement will continue to grow, and more individuals, neighborhoods, and local authorities will take the step of organizing their own local policing or hiring private security. The choice is either to encourage this as a supplement to official law enforcement, or to demand a rigid distinction between police and people. The experience of privatized policing demonstrates that the idea is not so unimaginably radical as might be supposed. □

1. James K. Stewart, "Public Safety and Private Police," *Public Administration Review*, November 1986, p. 764.
2. Jane Jacobs, *The Death and Life of the Great American Cities* (New York: Vintage Books, 1961), pp. 31-32.
3. E. S. Savas, *Privatization: The Key to Better Government* (Chatham, N.J.: Chatham House, 1987), p. 183.
4. *Police Review*, January 13, 1989, p. 65.
5. Oscar Newman, *Community of Interest* (New York: Anchor Press/Doubleday, 1981).
6. *Police Review*, October 21, 1988, p. 3.
7. Christine Dorffi, "San Francisco's Hired Guns," *Reason*, August 1979; Randall Fitzgerald, *When Government Goes Private: Successful Alternatives to Public Services* (New York: Universe Books, 1988), p. 73.

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Did Horvat Answer Hayek? The Crisis of Yugoslav Self-Management

by David L. Prychitko

At a time when one Communist regime after another is toppling in Eastern Europe, Yugoslavia gets remarkably little press. We watched with excitement the collapse of the Berlin Wall, the rise of poet-statesman Vaclav Havel in Prague, the fall of the Party in Budapest, and the bloody fate of Nicolae Ceausescu in Bucharest. We haven't heard much about Yugoslavia. The sweeping changes in the rest of Eastern Europe seem to be passing Yugoslavia by. But don't let that fool you. The peoples of Yugoslavia, like those of the neighboring East European countries, are calling for, and slowly attaining, an end to the monolithic Communist Party, and the introduction of private property rights and a full market economy.

Yugoslav-style socialism, with its ideological emphasis on decentralization and workers' self-management of socially owned resources, was once touted as a fundamental, more humane alternative to the command planning of the Soviet Union. Indeed, Yugoslavia was the first country to break away from Stalin's yoke of power back in 1948 to create a perestroika of its own. Under Tito's leadership, Yugoslavia attempted a massive decentralization toward workers' self-managed socialism, which began in 1950 with the adoption of the Basic Law on Movement of State Economic Enterprises and Larger Economic Associations by their Working Collectives. The central planning bureaucracy would be dismantled. State property would be erased. In Tito's words,

> The takeover of the means of production by the state has not made accomplished fact of the fighting slogan of the workers' movement, "Factories to the Workers," because the slogan "Factories to the Workers, Land to the Peasants" is more than just an abstract propagandistic battle cry. It contains deep and weightly [sic] meaning. It sums up the entire program of socialist relations in production; it speaks of social ownership, it speaks of the rights and duties of workers and—therefore—can and must be accomplished in practice if we want indeed to construct socialism.[1]

Enlightened workers' councils would be in charge of planning society from the bottom up, rather than the top down. "Social" ownership would replace state ownership. No longer the legal privilege of private capitalists or state bureaucrats, the means of production would officially be the property of society at large. State enterprises were to be freed from the hands of an oppressive bureaucracy and handed over to workers' councils; a market for consumers' goods would emerge, reducing the shortages and long queues that plagued other East European countries. Socialism would no longer restrict and destroy democracy. It would embrace it in the workshop, factory, and planning bureau.

The heyday of "market socialism" had arrived.

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BETTINA BIEN GREAVES

Mises and Hayek in 1956.

Claims of Rationality

The Austrian economists apparently suffered an intellectual beating. Seventy years ago Ludwig von Mises argued that socialism was impossible. By abolishing unhampered market exchange of the means of production—and thus market prices that reflect underlying economic scarcities—the central economic planners, Mises argued, would lack the knowledge necessary to rationally coordinate the economic system. They would stand confounded in the face of a "bewildering throng of economic possibilities," as Mises so eloquently put it.[2] F. A. Hayek agreed with Mises, and would later add that comprehensive economic planning, even if it begins with the most democratic and humane aspirations imaginable, must lead to a totalitarian dictatorship, "because dictatorship is the most effective instrument of coercion and the enforcement of ideals and, as such, essential if central planning on a large scale is to be possible."[3]

The Austrians wielded a double-edged sword. One side chopped to pieces the belief that central economic planning was possible in the complex, modern world. The other side cut through the veil of socialist democracy, and exposed the fact that any democratic ambitions must ultimately be abandoned in the utopian struggle to overthrow the market system. Or so the Austrians thought.

It seemed that, by the 1960s, Yugoslavia had finally proved that sword powerless. The Yugoslav model of decentralized socialism, which allowed markets for consumer goods as well as limited resource markets, along with its emphasis on democratic planning and management by workers, was considered by many comparative systems economists to be the final answer to Mises and, even more so, to Hayek.

At that time Yugoslavia enjoyed a relatively higher degree of economic growth compared with its neighbors behind the Iron Curtain. Queues for consumer goods dwindled. Workers were officially in charge of their workplaces and enterprise planning decisions. Yugoslavia's borders were open to Western tourists.

Economists tended to consider Yugoslavia the closest practical application of the theoretical model of market socialism devised by Oskar Lange. Morris Bornstein, for example, claimed that "a number of the problems identified by Hayek have been met in the Yugoslav variant of market socialism."[4] Thomas Marschak wrote that

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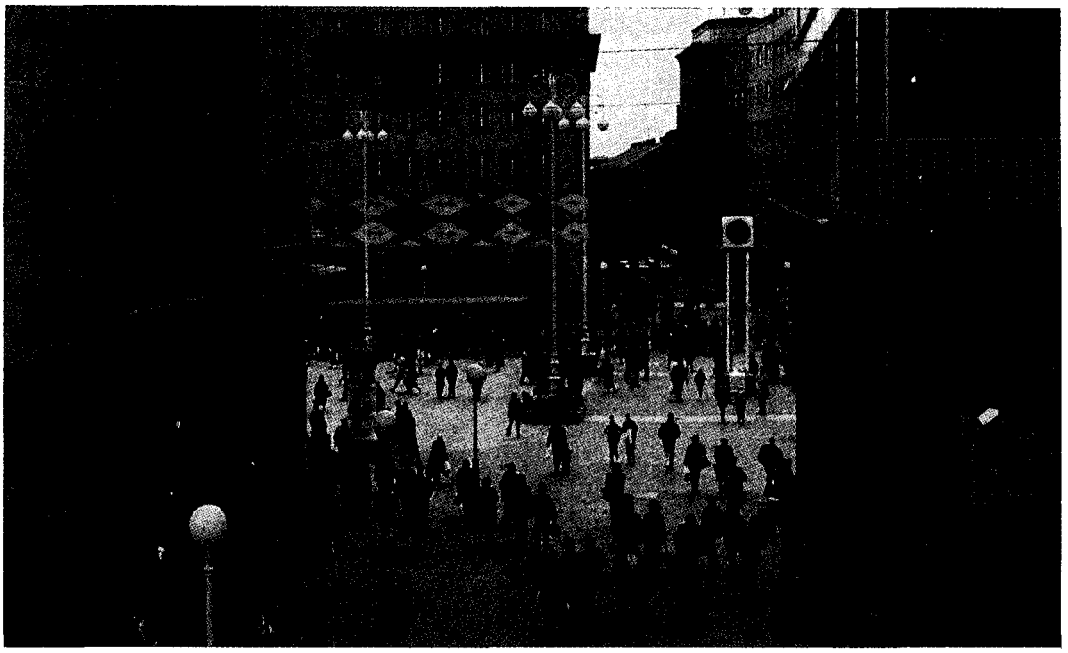

DAVID L. PRYCHITKO

Citizens in Republic Square, Zagreb (the capital of Croatia), Yugoslavia.

"the classic idea (of Hayek for example) that the burden of assembling managers' intimate technical information at one center is a major obstacle to any sort of central planning seems to lose weight in the Yugoslav context."[5]

Statements like these were not unusual among comparative systems economists in the 1960s and '70s. But the most forceful challenge to the Austrians was published less than ten years ago. Branko Horvat, Yugoslavia's leading economist, made it loud and clear in his magnum opus, *The Political Economy of Socialism*:

> Hayek framed his argument so as to prove the superiority of the free market over central planning. In the context of this book, it may be of some historical interest to note the following claim made by Hayek in 1945: "nobody has yet succeeded in designing an alternative system in which certain features of the existing one can be preserved which are dear even to those who most violently assail it—such as particularly the extent to which the individual can choose his pursuits and consequently freely use his own knowledge and skills." . . . I shall not leave this challenge unanswered.[6]

Horvat believes the blueprint of self-managed socialism answers Hayek:

> *Social control* is maximally effective—and the possibility of managerial abuses drastically reduced—because management operates before the watchful eyes of the workers' council and the entire working collective. It is both impossible and illegal to keep socially important decisions secret. Contrary to *monopolistic* tendencies elsewhere, the concentration of capital is discouraged. The working collective in a labor-managed firm is not inclined to overexpand the firm by mergers because it then loses control over the firm's affairs. On the other hand, because of the different social organization, financial power is no longer so important. A competitive firm can be neither bought nor owned. Thus, a labor-managed economy is likely to operate much closer to the textbook model of the competitive market. Social ownership *implies planning*, but *does not eliminate the market.* Consequently, the labor-managed economy achieves what Hayek considered to be impossible: an alternative form of organization in which genuine autonomy on the part of the firm is rendered compatible with *ex ante* coordination of economic activities and full use is made of the existing knowledge while losses due to market failures are avoided. Planning and social property render financial speculation almost impossible and substantially reduce the scope of wasteful advertising. *Interventions by the state* are minimized since deci-

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sions are automatically controlled at every stage, and taxation is simple because of egalitarian income distribution.[7]

Horvat maintained that "The Yugoslav solution should not be regarded as the end of a process, but rather as a promising beginning in the development of a genuinely self-governing society."[8] But the Yugoslav experience with self-managed socialism—which has now entered its fifth decade—illustrates anything but Horvat's claims. Let us therefore consider those claims in light of the reality of Yugoslav socialism.

Worker Control versus Party Power

We begin with the most important point: the democratic, self-managed enterprise as a revolutionary vehicle of social control. Supported by Tito's call for "Factories to the Workers" in 1950, Yugoslavia is considered to be grounded in workers' democratic control of enterprise. The self-managed enterprise is composed of various workers' councils. Communist ideology in Yugoslavia claims that, through democratic processes, workers elect a managing board that oversees and assists in coordinating the enterprise's operation. Workers, in their respective councils, officially manage the "socially" owned means of production (it is as if they rent capital resources from the state, instead of holding full legal ownership claims). Not forced by the dictates of Stalinist command planning, the Yugoslav constitution allows workers to distribute any enterprise profits as they see fit, whether it be in the form of personal income (over and above the workers' standard wages) or in the form of reinvestment into the enterprise itself.

The self-managed socialist enterprise is thought to be a relatively autonomous planning entity, an enterprise of the workers, by the workers, and for the workers. Furthermore, because the worker is also a citizen, because self-managed enterprises follow general planning procedures, such as entering into planning agreements with other enterprises, social councils, and government bureaus, and because this overall process is supposed to represent the best interests of society as a whole, the socialist system of self-managed enterprises is also thought to be a system of society, by society, and for society. The distinction between individual and society becomes, in such a Marxist utopia, blurred if not outright abandoned.

Hence, Horvat can say that social control is "maximally effective" and managers have little opportunity to abuse their positions. In actual practice, however, workers have enjoyed far less autonomy and power over decision-making than Horvat's theory would have us believe.

The Communist Party in Yugoslavia has managed to maintain a great degree of power within the enterprise. One avenue of power is found in the *aktiv*, which is a crucial link between the enterprise and other socio-political organizations. Organized by Party members who generally hold important positions in those outside organizations, the *aktiv* has a tremendous degree of influence over internal enterprise policy.

The *aktiv* "assists" the enterprise in helping persuade officials within the local commune, the republic, or within the Party itself to secure bank loans, to attain higher prices for their output, receive construction permits, etc. But, because it enjoys such a strong position of power, managers within the enterprise have little incentive to resist Party pressure. Enterprise autonomy is thus sacrificed for new permits, loans, and licenses, lower prices on scarce inputs, higher output prices, and enhanced foreign exchange allocation, any of which may be necessary for the success of the enterprise.[9]

The typical enterprise in Yugoslavia is riddled with both conflicts of interest and worker apathy. Workers tend to lack real interest in managing the enterprise. In fact, as Egon Neuberger and Estelle James have argued, the workers would rather not take responsibility for decision-making, because decision-making is too risky.[10] Good decisions may bring about higher incomes, but they may also bring about greater expectations by the Party and thus greater responsibilities in the future. Moreover, bad decisions hurt immediately. Workers therefore tend to fall into routine. They attend council meetings, but lack initiative to introduce significant dialogue concerning most enterprise matters. The general apathy among enterprise workers further allows the Party, directly or indirectly, to assume control over the elected managerial board. Rather than the ideal of democratic self-management, a technocratic elite has emerged to control enterprise operations.

This is not to say that workers don't become

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vocal, and fail to bargain or fight for certain issues within the enterprise. Apathetic as they may otherwise be, workers nevertheless have a huge personal interest in the distribution of enterprise profit. Bitter conflicts of interest appear over the issue of how much profit should be handed over to the workers for personal consumption and how much should be ploughed back into the enterprise for investment.

Though the Party would like to see investment increased, workers have little, if any, incentive to invest voluntarily in the socialist enterprise. Eirik Furubotn and Svetozar Pejovich have demonstrated this problem in a number of theoretical and empirical studies.[11] Because the Yugoslav worker does not enjoy full ownership rights to the means of production, only the right of use, he is not free to recover any money invested into the enterprise in the event that he leaves the firm or is fired. From the worker's point of view, it is more rational to "invest" one's personal income in durable goods such as refrigerators, automobiles, and furniture—things that are treated as private property under the owner's full control—rather than throw his money into a collectively owned pool that is not at his full disposal.

As a response, the Yugoslav state imposes huge taxes on gross enterprise income and engages in a policy of forced investment. Workers must then strike for higher wages. Strikes for increased wages are not unusual in Yugoslavia. In fact, thousands have occurred in the past few years. This is a source of tremendous embarrassment to Yugoslavia's Communist Party with its self-management rhetoric. If Yugoslavian enterprise really were a "true" self-managed system, as the Party would have us believe, the workers would appear to be striking against themselves!

Market Socialism, Monopoly, and Privilege

Horvat claims that the "labor-managed economy is likely to operate much closer to the textbook model of the competitive market." This is far from true, nay, it is outright ludicrous in light of the actual Yugoslav experience. The Yugoslav "market" historically has been plagued by a horrendous lack of entry. Citizens have the legal right to form their own self-managed enterprises, but the compulsory screening of "Competition Committees" has, in practice, eliminated this form of entry. Instead of new rivals' forcing existing firms to lower their costs of production and/or make products of better quality, incumbent firms (generally established by the state) have tended to expand by creating new plants. Curiously, though newly established plants have the right to secede from their founder, they have rarely exercised it and in many cases instead form what amounts to a cartel arrangement with the founding enterprise.[12]

The lack of entry has also brought about, without surprise, a lack of exit. Inefficient, costly enterprises, enterprises that would surely go bankrupt in a true profit-and-loss economy, have typically been supported, like most socialist firms throughout Eastern Europe, through enormous state subsidies. In Yugoslavia, as elsewhere under socialism, enterprise survival depends mostly on political entrepreneurship—the ability to cooperate effectively with the Party—as opposed to the type of managerial adeptness necessary to survive truly competitive markets. Though political entrepreneurship of this sort helps to preserve jobs, it does so at a significant cost, including poor quality products, lack of innovation, and an overall decline in economic growth.

Planned Chaos

Horvat stresses that "social ownership" combines both market and planning; it does not eliminate the market in favor of centralized command planning. I agree with Horvat at least in that, for Yugoslavia, the market has yet to be eliminated. There has been a market for consumer goods that has, in fact, been more open than in other East European countries. But the full benefits of the market process in the means of production and higher order goods are severely restricted by state intervention.

The role of the Party *aktiv* that I mentioned above is one way the state intervenes in the exchange of scarce resources. The bureaucratic obstacle to entry is another. And the fact that the state has engaged in a policy of administrative pricing of scarce resources since 1965—by fixing the prices of 90 percent of industrial products—is a third example. Centralized state banking in Yugoslavia, which resorted to printing money in order to subsidize terribly inefficient enterprises, is responsible for Yugoslavia's fantastic rate of infla-

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tion—which grew from roughly 40 percent per year in 1981 to over 2,000 percent by 1990 (the money supply grew by more than 9.5 times between 1985 and 1988 alone). Yugoslavia's foreign debt has surpassed $20 billion.

As in the USSR, Yugoslavia's extreme economic hardship has rekindled the fires of nationalism. Slovenia, Yugoslavia's most Western-oriented republic, has threatened to secede. Croatia may soon follow. Ethnic tensions in Kosovo, the troubled province in southern Serbia, are currently pushing Yugoslavia closer to an outright civil war.

Yugoslavia, once hailed as a watershed in market socialism, now stands at the brink of catastrophe. President Stipe Suvar's keynote address to the Presidency of the League of Communists in Yugoslavia (LCY) during the 17th Session of the Central Committee meeting in October 1988 is telling:

> The past thirty years, since the adoption of the LCY Program, have been marked by our efforts to emerge from the stage of state socialism. All our efforts, in which milestones have been the LCY Program, the 1965 economic reform, the constitutional reform of 1971-1974, the model for the political system provided at the 11th Congress in Edvard Kardelj's work, *Democracy and Socialism*, the Long-Term Program of Economic Stabilization, and the decisions of the 13th LCY Congress and stands taken at the LCY Conference held in May [1988], have aimed at further elaborating this original model of our revolution and at channelling the organized social energies of our society to realize them. The past three or four decades have seen a life-and-death struggle between state socialism and the forces of self-management waged over the character of production relations and the lines along which they should change. Society developed rapidly, but today all the postponed crises and earlier mistakes have caught up with us, and society is in the throes of a profound structural crisis. In other words, today's crisis is the culmination of all the social contradictions that have been building up over all these years. In the meantime, considerable confusion has been created in people's minds; there are many ideological misconceptions and illusions, and attempts to cover up the real situation.[13]

The argument put forward by Mises and Hayek—that the attempt to build socialism, even decentralized, democratic market socialism, will be plagued by gross inefficiency, waste, struggles for power and domination, blinding propaganda, and must eventually fail—that very argument applies with profound force to the Yugoslav system. As Suvar continues:

> Today's serious crisis in our society is the product of all the crises of yesterday, and for this reason it is all the more severe and disruptive. If there was nationalism in the past, today's nationalism is its consummate expression; if there was bureaucracy in the past, today's bureaucracy is totally hidebound and unproductive; if there was demagoguery and attempts to pull the wool over people's eyes by false promises of homogeneous communities, the examples we see today far exceed anything from the past. In effect, the position of the creative strata of society which have been pushed into the background, and the status of workers, peasants and the vast majority of the intelligentsia are the best gauge of how much power has been concentrated in the hands of bureaucratic and technocratic forces in the past few decades.

Theory and Practice

Branko Horvat may have criticism similar to, if not stronger than, that of Stipe Suvar concerning the way the Yugoslav system of self-managed socialism has worked in practice, especially now that the crisis has become all-consuming. Something, indeed, "went wrong." He would argue, I suppose, that in reality the Yugoslav economy needs more market exchange, a certain freeing up of prices, fewer technocrats and less Party pressure in the workplace, and more enterprise control in the hands of the workers.

This is just what the Yugoslavs are desperately trying to achieve in the midst of their present political and economic chaos. They are going even farther than that: Within the last year they have begun introducing other forms of ownership—private, cooperative, joint, and so on—to compete with socially owned, self-managed firms. They are taking some of the biggest steps in Eastern Europe to promote joint ventures with the West, and are preparing the framework for a unified, open stock

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market in Yugoslavia. With the traditional ideology of socialist self-management now illegitimate in the minds (and budgets) of the typical Yugoslav citizen, the potential for radical market reform and political pluralism indeed exists.

Without question, Yugoslav reality has failed, terribly, to live up to the theoretical blueprint of self-managed socialism.

This poses a dilemma to both the socialist theoritician and statesman. Who was at fault? What went wrong? If it were truly a worker-managed system, then the workers are the most likely candidates. But, of course, the crisis is not the workers' responsibility. They are the victims. The ideologue must now consider whether the theory can still be salvaged, in light of its obvious practical failure. This question is reflected in Suvar's statement at the 17th Session: "it is high time that we resolve the dilemma of whether this is the result of a crisis of theory and an imperfect system, or whether it is the result of poor implementation and incompetent people." This, I am sure, will be debated for quite some time among the Yugoslav economists, philosophers, Party members, workers, and citizens.

It also brings up an important point with regard to Horvat's alleged "solution" to Hayek's analysis. Does the Yugoslav blueprint refute the claim that socialism breeds both statism and inefficiency, and will eventually end in failure? Surely the fundamental problems in the Yugoslav experience were predictable from the Mises-Hayek position. But what of the ideal model itself?

The Austrian economists granted that socialism might "work" in theory. But that isn't much of a concession, if a concession at all. After all, we can distinguish between good theory and bad theory. Given the appropriate assumptions, perhaps anything might work in theory. It is neither intellectually impossible nor logically contradictory to design an abstract theory which argues that, for instance, a cat could swim the Atlantic Ocean. The important thing is what is likely to happen when the cat is thrown in the water. That's the test. A theory that cannot be tied to successful practice, though perhaps appealing in a purely intellectual or spiritual way, may not only qualify as a bad theory. It may be outright dangerous and inhumane.

Horvat did not answer Hayek. He responded to criticisms with bad theory, with an abstract model that had no potential for being realized through the actions of living men and women. In the meantime, Yugoslavia, once thought to be the epitome of socialist self-management, drowns in what is probably the most disturbing socio-political crisis it has ever faced. □

1. As quoted in Edvard Kardelj, *Tito and Socialist Revolution of Yugoslavia* (Belgrade: Socialist Thought and Practice, 1980), pp. 51-52.

2. Ludwig von Mises, *Socialism: An Economic and Sociological Analysis* (Indianapolis: Liberty Classics, 1981), p. 101. This book originally appeared in German in 1922. Mises' first statement was published in 1920, in the midst of the Soviet Union's disastrous experience with central planning, and was translated into English in 1935 as "Economic Calculation in the Socialist Commonwealth," in Friedrich A. Hayek (ed.), *Collectivist Economic Planning* (Clifton, N.J.: Augustus M. Kelley, 1975), ch. 3.

3. Friedrich A. Hayek, *The Road to Serfdom* (Chicago: University of Chicago Press, 1944), p. 70. Hayek also criticized the so-called "market socialism" of Oskar Lange, an alleged alternative to command planning, in his "Socialist Calculation: The Competitive 'Solution'" and "The Use of Knowledge in Society." These two essays are available in Hayek, *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948).

4. Morris Bornstein (ed.), *Comparative Economic Systems: Models and Cases* (Homewood, Ill.: Richard D. Irwin, 1965), p. 78. Bornstein referred in particular to an article by J. Marcus Fleming and Viktor R. Sertic, "The Yugoslav Economic System," which appears in the same book, pp. 230-49.

5. Thomas A. Marschak, "Centralized Versus Decentralized Resource Allocation: The Yugoslav 'Laboratory,'" *Quarterly Journal of Economics*, vol. 82, #4 (November 1968), p. 569.

6. Branko Horvat, *The Political Economy of Socialism: A Marxist Social Theory* (Armonk, N.Y.: M. E. Sharpe, 1982), p. 577, n. 56.

7. *Ibid.*, p. 208.

8. *Ibid.*, p. 165.

9. See Harold Lydall, *Yugoslav Socialism: Theory and Practice* (New York: Oxford University Press, 1986), pp. 115-22.

10. Egon Neuberger and Estelle James, "The Yugoslav Self-Managed Enterprise: A Systematic Approach," in Morris Bornstein (ed.), *Plan and Market: Economic Reform in Eastern Europe* (New Haven: Yale University Press, 1973), pp. 245-84.

11. See, for example, Eirik G. Furubotn and Svetozar Pejovich, "Property Rights and the Behavior of the Firm in a Socialist State: The Example of Yugoslavia," *Zeitschrift fur Nationaloekonomie*, vol. 30 (1970); and Svetozar Pejovich, "The Banking System and the Investment Behavior of the Yugoslav Firm," in Morris Bornstein (ed.), *Plan and Market*, pp. 285-311.

12. See Stephen R. Sacks, *Entry of New Competitors in Yugoslav Market Socialism* (Berkeley: Institute of International Studies, 1973), ch. 1; and Jan S. Prybyla, *Issues in Socialist Economic Modernization* (New York: Praeger, 1980), pp. 103-104.

13. Stipe Suvar, "Let Socialism Start Moving Forward Again to a Better Future," Belgrade, October 17, 1988, reprinted in *Socialist Thought and Practice*, vol. 28, no. 7-10 (1988), pp. 3-50.

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The Charade of Participatory Democracy

by Ridgway K. Foley, Jr.

The coercers of the mandate state employ many artifices to camouflage their true intent. They utilize these devices for two different reasons: first, they fear the truth, because truth is freedom, so stratagems that mask their desires serve their ultimate ends well; second, they realize that human greed and envy will permit them access to their goals, if that greed and envy can be cloaked in acceptable garb.

A particularly apt example of this modern approach to merchandising malice appears in the current vogue for citizen participation in governmental decisions, especially at the county, city, and quasi-municipal corporate level. The coercers ostensibly theorize that local governmental decisions will reach a political nirvana if those persons affected have their say and provide "meaningful input" (in the argot of the social planner) into state determinations. In fact, the social engineers recognize that they can find and fund a sufficient number of people to offer the appearance of probity and approval, whatever the scheme. This essay proposes a brief exploration into this late-20th century phenomenon.

I. The Town Meeting Justification

One might wonder at an attack on participatory democracy—after all, didn't the Founding Fathers pattern our governance after the New England town meeting and representative governmental theories of the 18th century? Shouldn't the governed be permitted, nay encouraged, a voice in their political control?

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No one decries representative or participatory democracy in theory, so long as the actions don't tread upon a minority, even a minority of one, and so long as the democratic process is real and not just a charade. While the national Constitutional Convention assembled in 1787 established a republican form of government expressly for the states[1] and by implication for the Federal aggregate, Jeffersonian theory, at least, favored subsidiarity (the local unit of government best performs all needed collective functions) which inherently subsumes democratic participation by the governed. Also, while the New England town meeting was not carved into national policy, many 18th-century thinkers recognized its worth.

The fundamental question must always be asked: What constitutes a proper function for the state? If one passes that inquiry for the moment, many would agree that all citizens affected by a decision concerning a proper governmental act should be invited to participate in such rule-making.

Several reasons support personal participation in regulation. First, an essential element of justice views self-government as intrinsically correct and proper. Second, no autocrat or oligarchy possesses sufficient knowledge and judgment to pass satisfactory laws controlling other human beings. Third, citizen participation tends to induce agreement and prod obedience to the laws thus enacted. Fourth, better rules of order develop from cross-pollination of many minds. Given these valid reasons undergirding participatory democracy, a substantial defect must exist in the current operation to explain the assault apparent from the thrust of this essay. In fact, two very substantial reasons

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uphold a protest against the current fashion.

II. Current Use of the "Public Hearing" Concept

The present use of community meetings in lawmaking gains much of its currency from explicit national and state policies decreeing citizen participation to be a necessary good which must be invoked before stated and governmentally desired results start to flow. At the national level, application and entitlement to "Federal funds" may require "input" from the community to be served as a precondition to distribution. At the state level, the legislative, executive, or judicial branches may enact an overall policy (deemed good) but compel residents to appear and voice opinions regarding elements and application of that policy to specific instances.

A Federal example: consider the urban mass transit grant program,[2] a Congressional concoction designed to disburse hundreds of millions of taxpayer dollars in the quest for riders on state-subsidized buses. The Congress has decided that public mass transit constitutes a desirable end; to achieve the details of that end and to imbue the affected recipients of this largess with a sense of belonging, the legislators also provide for public hearings in 49 USC Sec. 1604(i):

> Upon submission for approval of a proposed project under this section, the Governor or the designated recipient of the urbanized area shall certify to the Secretary that he or it has conducted public hearings (or has afforded the opportunity for such hearings) and that these hearings included (or were scheduled to include) consideration of the economic and social effects of such project, its impact on the environment, including requirements under the Clean Air Act, the Federal Water Pollution Control Act, and other applicable Federal environmental statutes, and its consistency with the goals and objectives of such urban planning as has been promulgated by the community. Such certification shall be accompanied by (1) a report which indicates the economic, social, environmental, and other effects of the proposed project, including, for construction projects, the effects of its location or design, and the consideration given to the various alternatives which were raised during the hearing or which were otherwise considered, (2) upon the Secretary's request, a copy of the transcript of the hearings, and (3) assurances satisfactory to the Secretary that any public mass transportation system receiving financial assistance under such project will not change any fare and will not substantially change any service except (A) after having held public hearings or having afforded an adequate opportunity for such hearings, after adequate public notice, (B) after having given proper consideration to views and comments expressed in such hearings, and (C) after having given consideration to the effect on energy conservation, and the economic, environmental, and social impact of the change in such fare or such service.

A state example: the Oregon Land Conservation and Development Commission, created by the Oregon Legislative Assembly,[3] defines "land use goals and guidelines," a euphemism for classifying and totally regulating the entire acreage of the state. However, within those broad state policies, the Land Conservation and Development Commission compels each governmental unit—with requisite citizen participation—to proceed through almost eternal and certainly wasteful hearings in order to develop a local "comprehensive plan" fitted to the city, county, or quasi-municipality. The enabling statute specifies the requirement of citizen participation:

> ADVISORY COMMITTEES[4]
>
> 197.160. *State Citizen Involvement Advisory Committee; city and county citizen advisory committees.* (1) To assure widespread citizen involvement in all phases of the planning process:
>
> (a) The commission shall appoint a State Citizen Involvement Advisory Committee, broadly representative of geographic areas of the state and of interests relating to land uses and land use decisions, to develop a program for the commission that promotes and enhances public participation in the adoption and amendment of the [state-wide planning] goals and guidelines.
>
> (b) Each city and county governing body shall submit to the commission, on a periodic basis established by commission rule, a program for citizen involvement in preparing, adopting and amending comprehensive plans and land use regulations within the respective city and county. Such program shall at least contain provision for a citizen advisory committee or committees broadly representative of geographic areas and of interests relating to land uses and land use decisions.
>
> (c) The State Citizen Involvement Advisory Committee appointed under paragraph (a) of this subsection shall review the proposed programs submitted by each city and county and report to the commission whether or not the proposed program adequately

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provides for public involvement in the planning process and, if it does not so provide, in what respects it is inadequate.

(2) The State Citizen Involvement Advisory Committee is limited to an advisory role to the Commission. It has no express or implied authority over any local government or state agency.

Thus, given the explosion in regulatory reach and detail afflicting the commonwealth today, the observer notes a virtual plethora of neighborhood associations, community planning organizations, local improvement districts, and myriad other squanderers of time and liberty, each devoted to the boredom of eternal explanatory meetings (work sessions) and forums for "citizen comment" (public hearings). It remains to consider the dual criticisms that detract from the beatific allure of public meetings.

III. The Twin Defects of Recent Pseudo-Democratic Strains

A. *Pandering to Personal Greed and Covetousness*

Remember the fundamental question that must be asked of any proposed governmental or public activity: Does this constitute an appropriate state function? If the answer lies in the affirmative, the town meeting may afford an acceptable, if not superior, method of determining and implementing public policy. However, if the answer is negative, no amount of "citizen involvement" procedures will convert an improper act into an ethical and acceptable one. Unfortunately, almost all the instances of participatory democracy assume the propriety of the end sought, concentrate on the superficial means employed, and avoid this central issue which should be studied and answered.

Elsewhere, I have suggested the test to be applied to the central question: Does the proposed state function reasonably concern (1) the protection of nonaggressive persons from acts of force or fraud, (2) a defense of the realm, or (3) the resolution of otherwise insoluble disputes?[5] If the function falls within these limited boundaries, it provides a ripe source for public concern and the exercise of the coercive force we term "government"; if the function lands outside these narrowly circumscribed perimeters, human conduct ought to be left to the individual choices of the people involved.

Deplorably, omission of this seminal question serves to obscure the fact that most, if not all, public hearings relate to matters properly relegated to private choice. Land-use planners don't consider whether or not the state, or any individual or group of citizens, ought (philosophically, morally, and empirically) to dictate to other, unwilling neighbors the uses of the real property belonging to the latter. Instead, they hold witless hearings (ignoring the basic question or assuming its answer) designed to carve up the countryside into brightly colored blocks and blobs on a map, representing the (presumed)[6] community calculation of how land ought to be employed. Likewise, advocates of mass transit never examine whether taxpayer-residents (1) want a bus system or (2) if so, desire to pay public monies for a municipally owned system as opposed to a private enterprise; instead they ignore the indispensable disquisition and spend citizen time, money, and energy in a search for ways to implement their grand design—through street closures, residence relocation, mandatory ridership in the name of energy conservation, and the like.

A deeper moral evil afflicts this activity than appears at first blush. The social architects seek their ends, knowing for the most part their goals and their reasons. They also recognize that a real and fair statement of the debate—freedom versus slavery, choice versus chains, contract versus coercion—might provoke an outcry from the public that would scuttle their plans. The planner "knows" that his plan represents a superior view of man's destiny; he cannot tolerate opposition or objection. With this attitude, the planner indulges in some sleight of hand (believing that his chosen end justifies any means) to assure public acquiescence if not acceptance. He panders to those sinister human emotions of greed and covetousness, playing what Gary North so fittingly calls "the politics of envy." He encourages neighbor against neighbor, friend against friend, business competitor against business competitor, in a dark quest for conformity to his aims.

Members of a neighborhood association testify as to the "proper" uses of property in the area. "We don't want any more gas stations, car washes, or fast food restaurants in our nice residential district." Never mind that kindly old Mr. Smith down the block invested his life savings in a 100x100 corner lot and negotiated a lease to Arco or Mobil as

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his retirement security. The planners know what they want; the neighborhood will be told what it wants; and that human malady of envy will come to the fore.

One can easily criticize the malevolence of the social engineer who wishes to coerce other people and fit them into his or her mold, caring not a whit if this means catering to the most base and despicable of human emotions to achieve the desired end. However, a just judge must reserve some fair share of anger for the citizen who becomes a pawn in this depraved play, who permits the panderer to appeal to his low emotions and immoral desires. The vocal resident who protests the opening of a new restaurant, who favors zoning or down-zoning of his neighbor's parcel, or who testifies in favor of street closure or limited access in order to improve his lot in life or to enforce his subjective value judgments regarding a "perfect neighborhood" should go to a special kind of hell. And few modern citizens have the right to cast the first—or any—stone!

B. ***A Masquerade of Self-Limitation***

To this point, we have considered the question of the *propriety* of the means chosen in relation to the ends sought, and have found them wanting. It remains to analyze the *efficacy* of the means employed by the planners in regard to their stated purpose. These, too, prove wanting.

In essence, the message of this essay is that public testimony means nothing; it constitutes an exercise in futility, a charade of the classic first order. The planners and statists know what they seek, and they will always secure their ends with apparent (but unreal) public support.

Men and women of a certain mind-set tend to dominate the present political scene at the national, state, county, and city levels. Schooled in the relativism and futile delights of statism, these individuals display a particular predilection in favor of government solutions for all real or imagined ills of society, and a distinct distrust and disfavor of private ownership of real property and personal motor vehicles. Given their options, these statists would eliminate the single-family dwelling and the private automobile from the face of America, and would substitute in their stead a gaggle of happy serfs trundling between their governmentally owned and subsidized hovels and their state-regulated employers on the shiny, gaudy buses of the urban mass transit system.

Maintenance of a bias against private ownership and the accumulation of wealth is one thing; control of the political apparatus and legal system with ability to effect these prejudices is quite another. Unfortunately, persons possessing the catechism set forth now occupy a position to destroy ownership, particularly of real property and motor vehicles, in their drive to subjugate the citizenry. Even more unfortunately, the victims—those people who have labored creatively for years to exchange their stored-up labor for an automobile, home, and garden—cannot or do not grasp what their traducers are about. Too often too many of us believe that man is inherently good, that mankind is perfectible, if only left to its own devices; that is simply not true, but because of this fantasy, the victims—the producing class of the United States —just cannot believe how mean and low the modern slave-masters have become. I believe. I have been there. And, I am here to reveal the warts and blemishes of this ugly play.

Sovereignty consists of three great divisions of legal power (eminent domain, taxation, and police power), and the dictators of our communities make most effective use of each type of power in their quest for total control of all real property in the area. And, make no mistake, the goal is complete government dominance and ownership of all realty within a few short years. Concomitantly, they seek to do away with the mobility provided by the automobile, cognizant of the fact that freedom falters without personal mobility and a sanctuary to which to repair. By taxation, by regulation, by planning, the Machiavellis of "Our Town" bite off great chunks of liberty by the subterfuge of conservation, environmental protection, and progress. As delineated earlier, they gain their ends by playing to base human emotions and inducing citizen participation in a monumental farce.

Of course, home ownership and our love affair with the automobile constitute two of America's most desirable and cherished personal rights, ranking high on the list of values maintained by many people. Therefore, a frontal attack by the statists might meet with too great an opposition; not only might the power play fail but also those who tried to seize control might lose their state-paid jobs with all the fringe benefits of wealth and power. Thus, we witness a subtle yet effective assault upon our ownership and our freedom of movement, an

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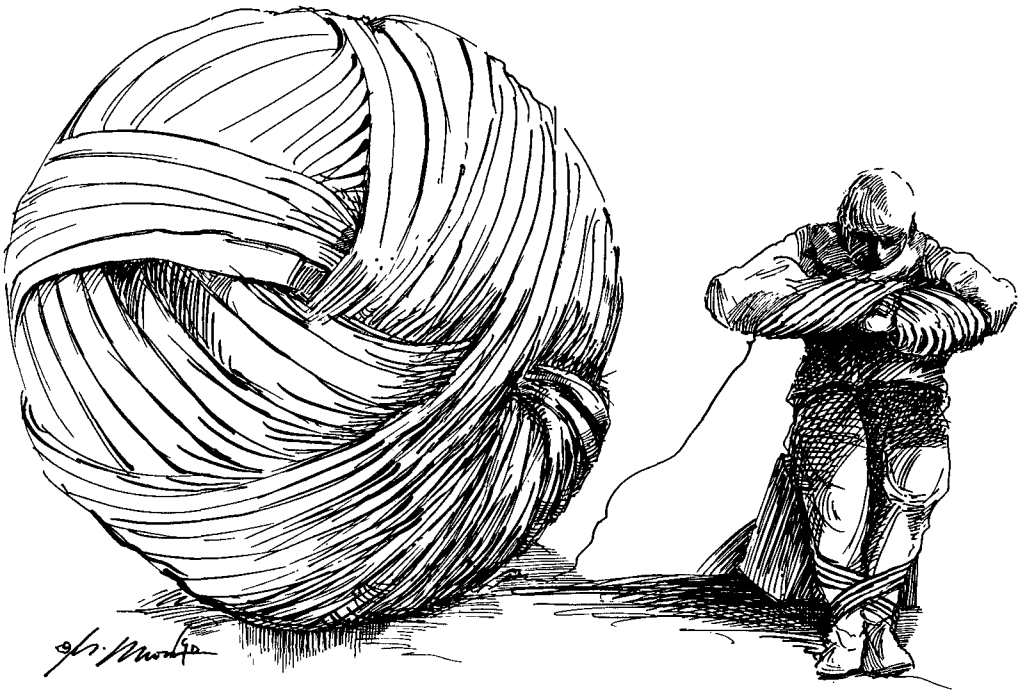

assault fueled by the politics of envy. Companion to this veiled riposte, one soon discovers that the victim is given a role to play, a role that tends to make him or her a willing participant in his own hanging. This role is labeled "participatory democracy," and it is molded cleverly and wielded well by the power-masters and their lackeys.

Simply put, today's town meeting never serves to correct or constrain the planner. By means of careful orchestration, the state architects always produce seeming community support for their pre-ordained choices. Their supporters, often cloaked, always muster forth with pat lines; their detractors strangely never receive notice of the meeting or, if by mistake notice does arrive, they find it post-poned, or their comments ignored, or their participation strictly limited. The hearing room is always stifling in summer and freezing in winter. The meetings are long-delayed or boring, so that citizens who must arise in the morning to attend to work or school cannot stay until their regulated turn arrives. Plan contents change magically and without notice. Transcripts and exhibits vanish. All but the most hardy become discouraged, as the assault of the meetings continues until all adversaries disappear from weariness or frustration. Thereafter, the commission or hearing officer always smiles sweetly while making an "objective" decision forecast by the staff henchmen.

In a sentence, the coercers offer the opiate of a public hearing, of citizen involvement, to the residents of the area, encouraging them to believe that they are participating in a grand experiment in self-governance, when in reality they are executioners of their neighbors' rights, and pallbearers at the funeral of their own freedom. □

1. U.S. Constitution, Art. IV, Sec. 4.
2. 49 USC Sec. 1604.
3. Or. L. 1973 c 80; ORS 197.030-197.095.
4. Note that the committee is "advisory" only; as demonstrated under section III B, *infra*, it would not do to give residents too much control over their own lives and land. They might rebel and abolish the Land Conservation and Development Commission, and then how could the power-hungry and cost-absorbing bureaucrats achieve their ends?
5. See, e.g., Ridgway K. Foley, Jr., "Individual Liberty and the Rule of Law," *Willamette Law Journal*, December 1971, pp. 396-418 and *The Freeman*, June 1971, pp. 357-78; and "The Source of Sovereignty," *The Freeman*, March 1982, pp. 167-75.
6. As demonstrated in section III B, *infra*, the adjudication truly belongs to the planners and the politically powerful; community action represents a cruel charade.

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A REVIEWER'S
NOTEBOOK

Population Matters

by John Chamberlain

"Life on earth is getting better, not worse." So proclaims Julian L. Simon of the University of Maryland in a book called *Population Matters: People, Resources, Environment, and Immigration* (Transaction Publishers, New Brunswick, N.J., 577 pages, $34.95 cloth). This sounds like Émile Coué speaking back in the Twenties, but Simon depends on much more than facile inspiration for his optimism. He lists some obvious things. The improvement in the life expectancy figures is on his side. Pollution is probably more and more under control. We are getting more wealth for less work. Diseases such as typhoid and polio have ceased to be menaces.

The only trouble (and here Simon gives a personal twist to his writing) is that there are not enough people around to enjoy the better life. We have been listening to the likes of Paul Ehrlich, who wrote *The Population Bomb*. But Ehrlich's own figures contradict his worries. We are not even producing two children per family in some nations of the West.

This fact sets things up for Simon's theories about immigration. If we can't reproduce ourselves, we can make up the deficiency by an immigration policy that would let people of talent and personal resources into the country. We can continue to wink at illegal entries. The Mexicans aren't overwhelming, and besides, most of them go home again to put their newfound grubstakes into land. Simon thinks we should auction off entry permits and possibly use the money to do something about the national debt. If talented immigrants can't come up immediately with the needed auction funds, they could be allowed to pay out of future income-tax deductions.

Talk about selling entry at Ellis Island may not sound very altruistic. But Simon says the famous Emma Lazarus poem about welcoming the refuse of a teeming shore is a phony anyway. Our immigrants of the late 19th and early 20th centuries were mostly in their robust 20s and 30s. They had brawny arms and a willingness to work without asking for welfare. In taking jobs, they began to earn money that paid more in taxes than was set aside for welfare.

Simon is extremely critical of what he thinks is a national commitment to family planning. The Ehrlichs want to keep families small. Simon's own theory is that people should have as many children as they want, provided they can pay for their food and educate them. The limitation of family numbers cuts down on the total citizenry that can be the source of new and creative ideas. Soichino Honda, founder of the automotive firm, put it aptly when he said, "Where 100 people think, there are 100 powers; if 1,000 people think there are 1,000 powers."

In his interchange with Ehrlich, Simon does a job on those who hold, with the authors of the Global 2000 Report, that the future will bring scarcities. "About 'loss of land' and 'desertification,'" says Simon, "some arable land surely is deteriorating. But Ehrlich and current news stories imply a more general proposition: that the world's total supply of arable land is decreasing.

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Yet the truth is exactly the opposite: [Joginder] Kumar (1973) made a country-by-country survey of the changes in arable land from 1950 to 1960. His finding: there was 9 percent more total arable land in 1960 than in 1950 in the 87 countries (constituting 73 percent of the land area of the world) for which he could find data—a gain of almost 1 percent per year. . . . And the increase in effective crop area was greater yet, because of the increase in multiple cropping in Asia and elsewhere."

Some of Ehrlich's past prophecies now seem particularly ludicrous. In 1969 he wrote in a "scenario" of the future: "The end of the ocean came late in the summer of 1979," and he went on to predict "the final gasp of the whaling industry in 1973"; "the end of the Peruvian anchovy industry in 1975"; a reduction of the fish catch to 30 million metric tons by 1977—all this contributing to "50 million people per year . . . dying of starvation" in 1977. These were crazy guesses. By 1977, for example, the fish catch was 73 million tons.

There is a valid criticism of Simon's way of writing a book, which is to send his readers backward and forward to recapitulate material that should have been presented in simple chronological order even at the risk of repetition.

A final criticism: Simon doesn't show how life for victims of socialism can be getting better. □

ECONOMICS ON TRIAL: LIES, MYTHS, AND REALITIES

by Mark Skousen

Business One Irwin, Homewood, IL 60430 • 1991 • 314 pages
$21.95 cloth

Reviewed by David M. Brown

"No comment," says Paul Samuelson. What he's declining comment on is Mark Skousen's *Economics on Trial*, a trenchant analysis of the concepts, theories, and delinquencies of the "top 10" economics texts used in college classrooms today. But it's a work that Samuelson would do well to study carefully.

Samuelson's *Economics*, which has been through 13 editions since its original publication in 1948, is the leader of the pack, the neo-Keynesian template for the modern textbook approach. Samuelson was among the first of the "armchair economists" to sic such Keynesian notions as "the paradox of thrift" and the wonders of deficit spending on the unsuspecting college students of the postwar world.

John Maynard Keynes' mammoth—and mammothly misleading—*General Theory* saw print in 1936, at a time of growing intellectual hostility toward capitalism. Economists and other professional thinkers of the day were vastly susceptible to plausible-seeming rationalizations of government intervention in the economy. Although only the Austrian school of economic thought, as represented by Ludwig von Mises and Friedrich Hayek, had successfully predicted the scourge of the Great Depression and could now prescribe the needed policy antidote, the anti-interventionist analysis of the Austrians was washed aside in the wake of the Keynesian theoretical tsunami. And so, even though many of the Keynes-inspired "models" of economic activity blatantly contradict observable reality and common sense, they have nonetheless emerged as standard textbook fare.

Mark Skousen is an emissary from the real world. Far from being a mere subsidized armchair theorist, he has actually engaged in extensive entrepreneurial activity in what we call the economy, the realm of goods and exchange and profit-seeking. He has built his reputation as a financial analyst and is intimately acquainted with market conditions and the consequences of government controls. He has also traveled quite a bit and done some savvy comparison-shopping of the world's economies. And as far as theories go, Skousen is most sympathetic to the Austrian school, which defines economic value as "subjective" (i.e., dependent upon personal valuation and action rather than being intrinsic in any good or service), spurns mathematical formulae in favor of verbal deductive reasoning, and emphasizes the crucial role of production and the entrepreneur in a healthy market economy.

Economics on Trial should be required reading in all Econ 101 courses. Skousen has supplied a need that he himself felt as an economics student—the need for "a book that would simply but thoroughly dissect the large number of dubious theories and questionable doctrines taught in the classroom." He takes on about 20 concepts or perspectives of modern economics and devotes a chapter to each, first giving the textbook version of things, then stripping away the rationalistic veneer of official doctrine to expose its logical and factual deficiencies.

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Take, for example, the Keynesian notion of the "paradox of thrift." This is a conceptual glass house that has been popularized by Samuelson. The contention is that, while savings may well be beneficial on an individual level, the effects can be deleterious for "society as a whole," at least during economic downturns. Instead of thrift and savings, therefore, during slow times we should stress and encourage the demand side of the economy (buying). Elsewise, businesses will be deprived of the funds that have been tucked away in savings. Says Samuelson, "If people try to increase their saving and lower their consumption for a given level of business investment, sales . . . will fall. Businesses will cut back on production. How far will production fall? GNP will fall until people stop trying to save more than businesses are investing."

Skousen has no trouble disposing of this strange claim. First, he notes, Samuelson ignores the probability that an individual's savings, rather than merely moldering in a bank vault, will be lent out to business enterprises and thus contribute to production. "Second, investment under Keynesian theory is primarily a function of business expectations of consumer demand. An increase in consumption will stimulate investment, and vice versa. This is contrary to classical economic theory, which contends that investment decisions are determined by the profit margin of business opportunities. Demand is just one side of the equation. Businesses also consider such factors as the level of interest rates and the costs of production—not just final demand—to determine their profit margins." But the most central objection that can be raised against the Keynesian approach is that it imposes its own blindered short-term outlook on economic actors in the market:

> The Keynesian model assumes that the only thing that matters is *current* demand for final consumer goods—and the higher the consumer demand the better. But this view fails to recognize another force that is just as strong as current demand—the demand for *future* consumption. . . . [I]f every attempt to curtail consumption results in a proportional decline in production, as the Keynesian theory contends, then no addition to a nation's wealth could ever occur from increased savings. By the same token, if everyone went on a buying spree at the local department store or grocery store, investment would not necessarily expand. Certainly, investment in consumer goods would expand, but increased expenditures for consumer goods will do little or nothing to construct a bridge, build a hospital, pay for a research program to cure cancer, or provide funds for a new invention or a new production process.
>
> What the Keynesians have overlooked is that the decision to save is an act of time preference, the choice between current spending and future spending. Savings do not disappear from the economy; they are merely channeled into a different avenue. Savings are spent on investment capital now and then spent on consumer goods later.

How do the textbook writers manage to get away with such sophistries as the view that planning for the future is an economic ill? One reason is that policy-makers are looking for ways to rationalize their indulgence in short-term expediency. Another is that students come to class with little or no real-world economic experience, and usually without the intellectual wherewithal to challenge the conventional wisdom. This wisdom is wrapped up in arcane terminology and then formally represented in forbidding-looking graphs, with the relevant fallacy neatly plotted along the x and y axes; it's easier to memorize the graph than to argue with the professor and risk a bad grade.

There's a huge question as to the intellectual utility or propriety of graphic representations in economics—even when they represent economic truths—inasmuch as these models tend to hint at or presuppose constant relationships that simply do not exist in the realm of human action. Mises eschewed such visual tools completely, although, as Skousen notes, many of his followers have not been so finicky. Perhaps graphs do have some kind of heuristic role if not taken literally, but to avoid misconception the stress has to be on verbal ratiocination. Students must be able to spell out causal connections in step-by-step fashion if they are to attain and demonstrate real economic understanding. Skousen thus makes the pro-Misesian reader a little uneasy when he occasionally overturns a neo-classical model only to offer a new and improved version of his own; the lines are still too neat.

A few other objections could be raised about Skousen's own theoretical approach, but thank-

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fully these add up to a very minor and peripheral flaw in the book. Overall, *Economics on Trial* achieves its goal of providing simply and clearly argued objections to the textbook orthodoxy, and it does so with eminent fairness. Skousen gives credit where credit is due, and when he critiques an idea he often mentions which texts feature it and which ones (if any) adopt a more sensible perspective. He also provides much that is just plain *missing* from the official version of things, such as discussions on the history of money, the workings of the world's healthier economies, and the relevance of the Austrian school of economics. No economics student—or, for that matter, textbook author—should be without a copy of *Economics on Trial.* □

David M. Brown is the managing editor of the Laissez Faire Books catalog and a free-lance writer.

IDEAS, INTERESTS & CONSEQUENCES
by Andrew Gamble, et al.

London: Institute of Economic Affairs; North American Distributor: Atlas Foundation, 4210 Roberts Road, Fairfax, VA • 22032 • 1989 • 133 pages • $15.00 paper

Reviewed by Peter J. Boettke

This collection of essays from a Liberty Fund symposium held at Windsor Castle on June 26-29, 1989, addresses one of the most important theoretical and practical problems of our day. If political decisions are largely the outcome of interest-group pressure, then what role is left for ideas in changing the polity? Do ideas make a difference? All six authors—Andrew Gamble, Mancur Olson, Norman Barry, Arthur Seldon, Max Hartwell, and Andrew Melnyk—address this problem from various historical, theoretical, philosophical, and practical perspectives.

John Maynard Keynes concludes his *General Theory of Employment, Interest and Money* with the famous statement that

> [t]he ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. *I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas.* (emphasis added)

But can we be so sure? Consider the so-called Thatcher and Reagan popular free-market "revolutions." Neither constituted any fundamental change in the basic institutions of the polity or instituted constitutional changes in the rules. As a result, despite whatever short-term gains, with regard to releasing the power of free markets, might have been achieved—a very doubtful proposition even at that level—the long-term prospect is simply more of the same welfare/warfare policies that preceded Thatcher and Reagan. It is "policy within politics" as usual.

The evidence from these "revolutions" suggests the analytical power and empirical relevance of the extreme interpretation of public choice economics. This argument stated in the extreme proclaims the victory of interests over ideas. Indeed, the world is ruled by little else. Politicians are vote-seeking "entrepreneurs," and most voters are rationally ignorant of the preponderance of issues—concentrating instead on only those issues that are of special interest to them. The interaction between rationally ignorant voters and vote-seeking politicians produces a bias in government decision-making toward policies that yield short-term and easily identifiable benefits at the expense of long-term and hidden costs. This usually produces policies that result in concentrated benefits to well-informed and well-organized interest groups, with costs dispersed among the ill-informed and ill-organized mass of voters.

This public choice argument is a powerful one, but one that is generally misunderstood. It is not the case that interests rule out the influence of ideas, just that within any *existing* polity interests have certain advantages over rational argument when it comes to satisfying the demands of political actors. But ideas can and do make a difference.

Political actors must make decisions concerning their political future within a *climate of opinion.* If the climate of opinion were one that questioned redistribution of income, then politicians who were exposed as advocates of redistribution would

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be easily challenged. On the other hand, if the climate of opinion were such that collectivist policies and redistribution were the accepted norm, then a politician favoring individual freedom and free markets would be considered reactionary and suffer at the voting booth. Ideas matter in changing the constraints in which political actors seek to maximize their personal gains in terms of votes, campaign contributions, and prestige.

Organizations such as FEE, therefore, are not assigned a negligible role in society. Instead, they assume a role of fundamental importance by influencing the climate of opinion. But in addition to determining the climate of opinion, ideas also play an extremely important role within the political economy.

Most scholars and intellectuals misunderstand the methodological perspective of public choice economics, and particularly the branch of public choice economics termed constitutional political economy. Public choice scholars, such as the 1986 Nobel Laureate James Buchanan, want to examine decision-making at both the pre- and post-constitutional level. The pre-constitutional level deals with ideas concerning good and appropriate rules by which to organize society. Post-constitutional analysis, on the other hand, seeks to understand and explain the various strategies actors will employ within an already existing set of institutions or rules. The weaving together of pre- and post-constitutional analyses to tackle the problems at hand constitutes the method of the constitutional political economist.

The extreme variant of the public choice argument presented above is a correct representation of the role of interests in the political processes that occur in the post-constitutional arena. Ideas concerning what is moral and good, or simply what would be the most effective way to organize society, affect the rules of social interaction. Intellectual advances and the promotion of ideas represent remote stages in a time structure of production that eventually produces public policies. The investments in ideas are capital investments, which can yield great returns for those investors in the long run. It is in the *interest* of some to invest in *ideas*. Depending on the nature of those ideas—liberalism or socialism, for example—their impact can be of great benefit.

In the end, therefore, Keynes's statement contains great truth. The individual papers in this volume all demonstrate this with notable clarity. On the surface the paradox between interests and ideas confronts a serious problem to liberalism—pointing out its inherent fragility in the face of interest-group pressure. But, the problem, while serious, is not so deadly as one might suspect. An understanding of the role of interests is fundamental to developing ideas that can protect us from the rule of special interests. At the constitutional level, as the American founders sought to do, we can establish rules that reduce the negative role of interests. To do that requires a victory in the battle of ideas: both in the academic community where social philosophy emerges and in the general populace where the climate of opinion is formed. Ideas can and do make a difference, they do have consequences, as this volume of essays conveys with force. □

Peter J. Boettke is a professor of economics at New York University and author of The Political Economy of Soviet Socialism: The Formative Years, 1918-1928 *(Kluwer Academic Publishers, 1990).*

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